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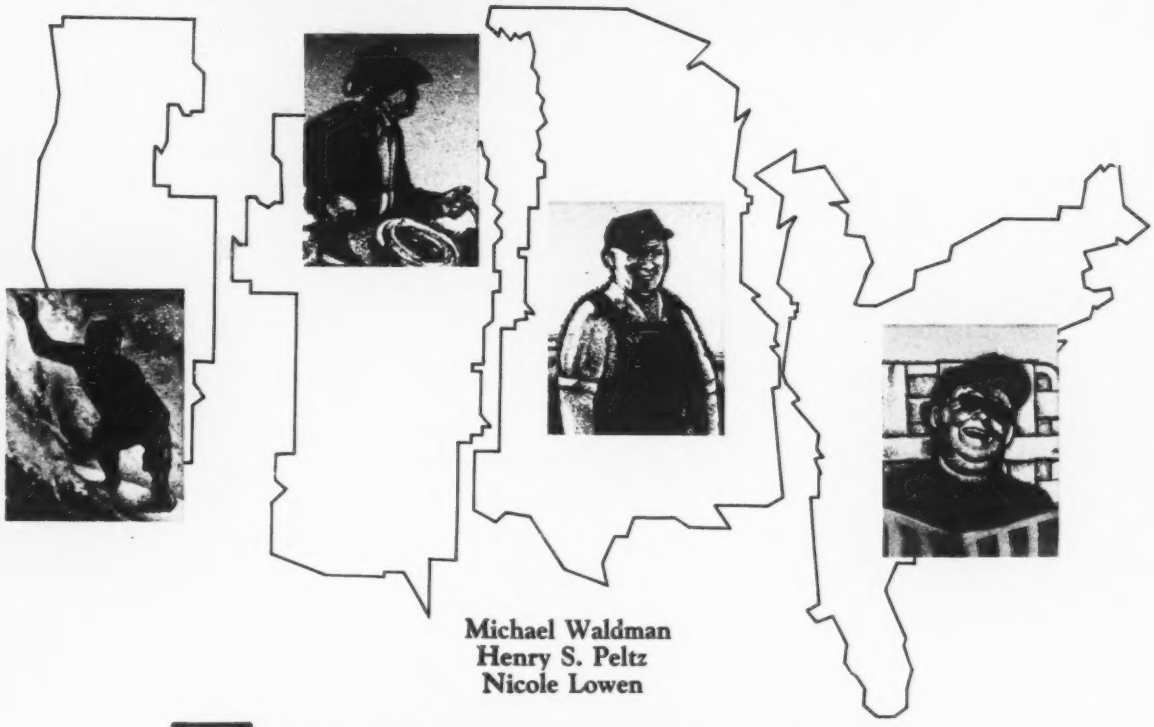
MORTGAGE PREPAYMENTS: THE REGIONAL DIFFERENCE



Michael Waldman
Henry S. Peltz
Nicole Lowen

The yield on a discount mortgage security or whole loan portfolio depends directly on the prepayment rate of the underlying loans. Faster prepayments will accelerate the realization of discount on these loans and thus enhance their rates-of-return. Thus, managers can seek to improve a portfolio's yield by increasing its overall prepayment rate. One way to do this is to consider the location of the underlying loans in making investment choices.

In a recent study, Salomon Brothers examined regional differences in mortgage prepayments. In particular, the prepayment rates[1] of seasoned discount conventional mortgage-backed securities were classified by state. The results show that prepayment rates vary considerably for different areas of the country. Regional differences in economic conditions, migration patterns, homeowner mobility, and lending practices can lead to mortgage prepayment rates significantly above or below national averages. In addition, these relationships can change markedly over time.

The state prepayment statistics are based on a combined universe of Federal Home Loan Mortgage Corporation (FHLMC) Guarantor Participation Certificates (PCs) and Federal National Mortgage Association (FNMA) passthroughs. In this analysis, each pool has been classified according to the location of the thrift, bank, or mortgage banker that originated the pool. It should be realized that this method is somewhat imperfect. In recent years, the mortgage lending activities of many of these companies have spread far afield from their home bases, in large part because of interstate mergers and acquisitions and expansion by thrifts into mortgage banking activity. Our analysis indicates that this identification of pool location

continued

with the seller/servicer's home state is currently about 85-90 percent accurate.

Results

Prepayment rates are shown semi-annually for 1982, 1983, and the first 10 months of 1984 in Figure 1 for the 10 states with the largest outstanding amount of seasoned discount FHLMC and FNMA pools. The Figure indicates that the differences in prepayment rates between states are significant. Among these states, Texas has exhibited the fastest prepayment rates during the past three years, and Washington the slowest, with a difference between them for the past 10 months of more than 3 percentage points. The two states with the largest amounts of mortgage pools outstanding—California and Florida—have shown prepayment rates slightly below the national average for the past 10 months.

Prepayment rates for all states with at least $200 million in mortgage pools outstanding are displayed in the Appendix; this more detailed table shows that prepayment rates in many cases follow a regional pattern. For example, in addition to Texas, the nearby states of Oklahoma, Missouri, Arkansas, and New Mexico have produced above-

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Figure 1.

Prepayment Rates for 10 States with the Largest Amount of Mortgage Pools Outstanding (Seasoned Discount FHLMC Guarantor PCs and FNMA Pass-Throughs[a])

		Prepayment Rate						
		1982		1983		1984		
State	Amount Outstanding[b]	Jan-June	Jul-Dec	Jan-June	Jul-Dec	Jan-June	July-Oct	Year to Date
Texas	$3,414	5.9%	5.2%	6.2%	8.5%	7.5%	7.7%	7.5%
Illinois	3,679	3.3	3.0	4.9	7.9	6.7	8.8	7.5
Pennsylvania	2,498	—	4.1	5.6	7.7	6.2	7.8	6.8
Maryland	1,727	—	2.6	4.7	7.0	6.3	6.8	6.5
Florida	4,564	2.5	3.5	4.4	6.2	6.4	6.1	6.3
Ohio	2,774	3.4	3.7	5.4	7.2	6.2	6.6	6.3
New Jersey	1,773	—	2.9	5.2	6.6	5.6	6.7	6.1
California*	13,389	1.2	2.2	3.9	5.9	6.3	5.7	6.0
Michigan*	2,674	—	2.3	2.8	4.8	4.6	5.7	5.1
Washington*	1,841	—	1.8	3.2	4.3	4.3	4.4	4.3
National Total	$59,193	3.1%	3.2%	4.6%	6.6%	6.2%	6.7%	6.5%

[a] *Conventional mortgage pools outstanding for two or more years with coupon rates at or below the prevailing current coupon; minimum $200 million outstanding.*

[b] *As of October 1984; dollars in millions.*

* *Window state.*

national-average prepayment rates during the past two years.

Aside from general influences on national housing activity, a state's prepayment rate will depend on the local social, economic, housing, and legal climate. To illustrate the impact of these factors, the four key states of Texas, Washington, California, and Florida were examined. The unemployment rate and the growth of personal income—two factors that heavily influence local housing affordability—and the growth rate of single-family housing stock are indicated for these states in Figure 2.

Texas

For the past few years Texas has produced prepayment rates consistently above the national average, reflecting a strong economy and a robust housing market (see Figure 3). Judging by unemployment statistics, Texas escaped the 1981-82 recession to a greater degree than did other states. In 1983-84, the Houston market suffered from declines in oil prices, but the statewide economy continued to show strength. Despite a slowing in personal income growth (on a relative basis), Texas still recorded a low unemployment rate and a rapid growth in new home construction fueled in part by strong migration to the state.

Washington

At the other end of the scale, prepayment rates for the state of Washington were substantially below the national average throughout the 1982-84 period (see Figure 4). This pattern can be explained by economic conditions. Because Washington has a heavy concentration in the aircraft and forestry industries, coupled with airlines and housing being in a severe recession during 1981-82, the state's unemployment rate soared, and personal income growth plummeted. During 1983-84, the state's economy only partially recovered. Housing market activity suffered much more than the national average in this economic environment.

Figure 2.

Prepayment Rates and Selected Economic Statistics (Dollars in Millions)

State	Amount Outstanding[d]	Prepayment Rate			Unemployment Rate[a]			Growth in Personal Income[b]			Growth in Housing Stock[c]		
		1982	1983	10 Mos. 1984	1982	1983	July 1984	1982	1983	June 1984	1982	1983	Nine Mos. 1984
TX	$ 3,414	5.5%	7.3%	7.5%	6.9%	8.0%	6.3%	8.2%	5.4%	9.8%	2.2%	2.8%	2.5%
WA	1,841	—	3.7	4.3	12.1	11.2	9.0	4.2	5.5	5.7	1.0	1.6	1.7
CA	13,389	1.7	4.9	6.0	9.9	9.7	8.4	6.4	7.3	8.9	0.9	1.8	2.1
FL	4,564	3.0	5.3	6.3	8.2	8.6	6.8	8.0	8.3	12.1	2.4	4.3	4.6
National Total	$59,193	3.2%	5.6%	6.5%	9.7%	9.6%	7.4%	6.0%	6.2%	9.6%	1.0%	1.5%	1.6%

[a]*Civilian unemployment rate, not including armed forces. Source:* Employment and Earnings, *U.S. Bureau of Labor Statistics.*

[b]*Annual percentage change of personal income. Source:* Survey of Current Business, *1982 and 1983, U.S. Bureau of Economic Analysis; for June 1984,* Business Week, *October 15, 1984.*

[c]*Defined as the number of one- to four-family building permits issued divided by one- to four-family housing stock in 1980. Source:* Housing Units Authorized by Building Permits and Public Contracts, *selected months, and* 1980 Census of Housing: U.S. Summary, *U.S. Bureau of the Census.*

[d]*As of October 1984; dollars in millions.*

continued

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Figure 3.

Prepayment Rates by State—Texas

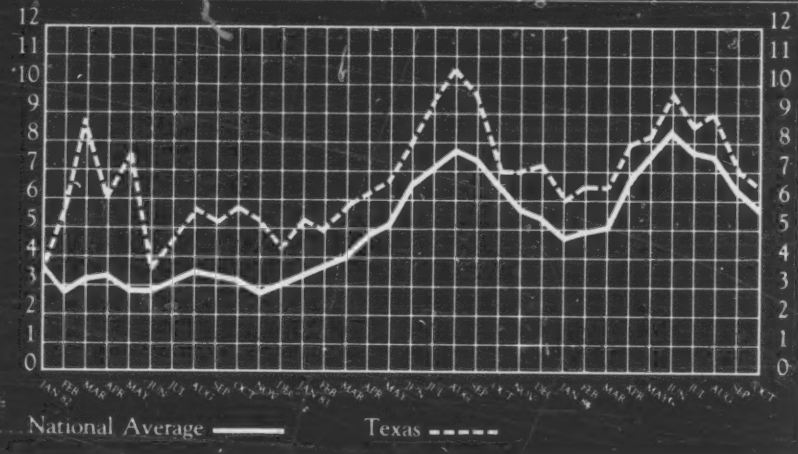
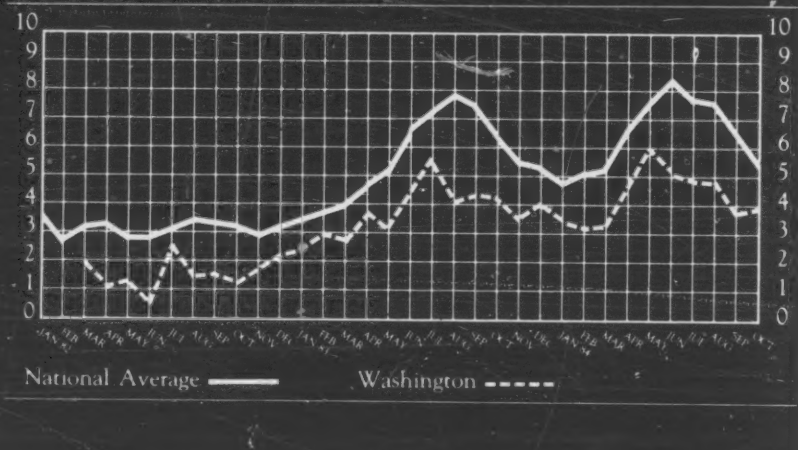


Figure 4.

Prepayment Rates by State—Washington



In addition, adjustable rate mortgages (ARMs) were widely offered somewhat later in the Pacific Northwest than in other areas of the country.

California

Figure 5 shows prepayment rates for California, which represents about 23 percent of the total amount of outstanding mortgage pools (when pools are classified by the location of the seller/servicer). Prepayment rates for this state fell to extremely low levels in 1982 when the combination of high mortgage interest rates and inflated real estate prices crippled the California housing market. Furthermore, with a state restriction on the enforcement of mortgage due-on-sale clauses, homeowners often let prospective buyers assume existing loans under various forms of "creative financing." Consequently, many homes were sold without the existing mortgage loan being prepaid.

With economic recovery, preemption of the restriction on the enforcement of due-on-sale for federally insured thrifts, and aggressive origination of low, initial rate ARMs by lenders, California prepayment rates recovered to the level of the national average in the first half of 1984. These rates fell off somewhat in the July to October period.

Florida

Prepayment rates for Florida have closely tracked the national average figures (see Figure 6). Florida has enjoyed a strong economy during the past few years. The state has had one of the highest growth rates in personal income, and its housing stock has expanded rapidly to accommodate the strong housing demand generated by in-migration. Florida was second only to Texas in terms of in-migration during 1980-82. The fact that Florida mortgage prepayment rates have not exceeded the national average may be partly explained by its large elderly population, which tends to have low mobility. In 1982, 17.4 percent of Florida's popula-

continued

Figure 5.

Prepayment Rates by State—California

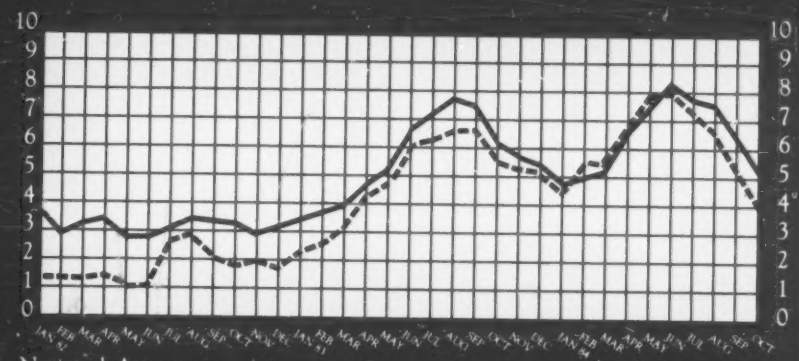


Figure 6.

Prepayment Rates by State—Florida

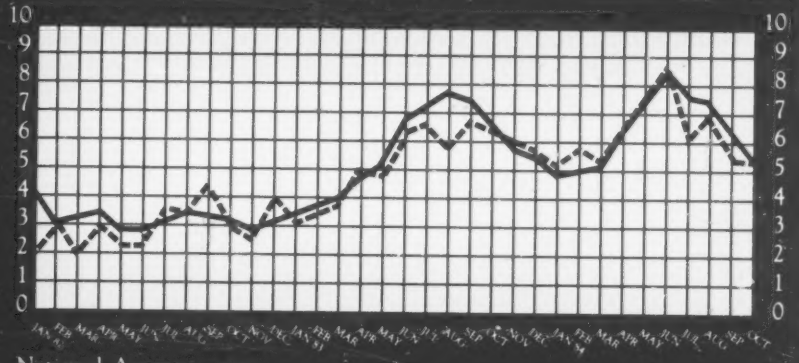


Figure 7.

Window Period States, Window Periods, and Transferability Periods

Window Period States[a]	Window Period	Transferability Period[b]
Arizona	July 8, 1971-October 15, 1982	Through October 15, 1987
California	August 25, 1978-October 15, 1982	Through October 15, 1985
Colorado	July 1, 1975-October 15, 1982	Through October 15, 1985
Georgia	July 1, 1979-October 15, 1982	Through October 15, 1985
Iowa	July 1, 1979-October 15, 1982	Through October 15, 1985
Michigan	January 5, 1977-October 15, 1982	Through October 15, 1985
Minnesota	June 1, 1979-May 8, 1981	Through October 15, 1985
New Mexico	March 15, 1979-October 15, 1982	Through October 15, 1985
Utah	May 12, 1981-October 15, 1982	Through October 15, 1985
Washington	August 19, 1976-October 15, 1982	Through October 15, 1985

[a]*All window periods apply to single-family mortgages, except for California, Colorado, and Washington, which are window period states for single and multifamily mortgages.*

[b]*The transferability periods for window period loans originated by federally chartered credit unions and national banks expired on November 18, 1982 and April 15, 1984, respectively, by actions of the National Credit Union Administration and the Comptroller of the Currency.*

Source: Federal Home Loan Mortgage Corporation.

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tion was 65 years of age or older, far exceeding the 11.6 percent U.S. average.

Due-on-sale enforcement

Prepayment rates are affected by lenders' enforcement of due-on-sale clauses, which permit acceleration of a mortgage loan if the borrower sells the property. Both FNMA, from the inception of its pass-through program, and FHLMC, since July 1, 1983, have required that servicers of their pools enforce due-on-sale clauses when legally permitted.

The Garn-St Germain Act of October 15, 1982 preempted state laws that prohibited the enforcement of due-on-sale clauses and removed all such restrictions on loans originated by federally chartered savings and loans and federally chartered savings banks (reinforcing a decision of the Supreme Court of June 28, 1982 on the latter). However, the Act also provided that existing state restrictions on due-on-sale enforcement would remain in effect for state-chartered institutions for loans originated during a "window period." The window period extends from the initiation of the state restriction to October 15, 1982 (or the date the state terminated the restriction, if earlier). The states with such restrictions and the applicable window periods are shown in Figure 7.

For these states, mortgages in pools originated by state-chartered lenders during the window period will be assumable until October 15, 1985, unless this date is accelerated or extended. It should be realized that even for the "window states," due-on-sale clauses for mortgages in pools originated by federally chartered lenders can be enforced.[2]

Figure 8 compares the combined prepayment rate for the 10 window states with that of all other states since January 1982. The latter are significantly higher than the window state rates throughout the period. While the magnitude of this difference reflects a variety of factors, the chart suggests that enforceability of due-on-sale has had a significant impact on prepayment rates.

continued

Figure 8.

Prepayment Rate Comparison

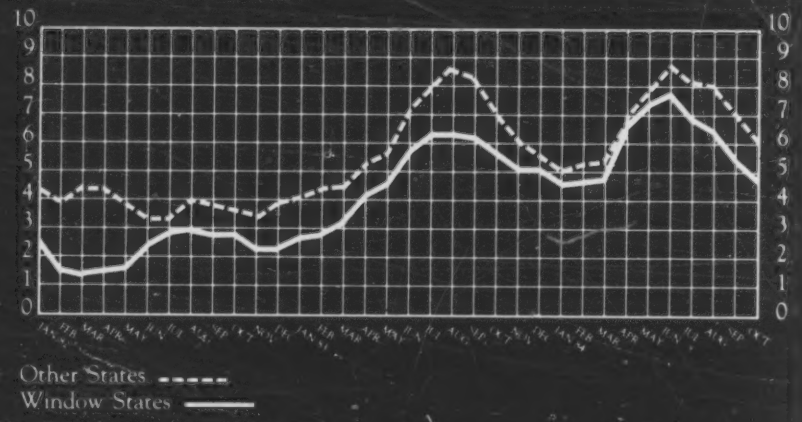

Figure 9.

FHLMC Guarantor Pools Issued Since July 1983

	Single State Seller/Servicers	Multistate Seller/Servicers	Total
Amount Outstanding*	$11,758	$3,706	$15,464
Percentage of Total	76%	24%	100%
Percentage Classified Correctly	100%	66%	92%

*As of October 1984; dollars in millions.

Because due-on-sale clauses will be generally enforceable after October 1985, some pickup in prepayment rates for the window states may be expected after this date.

Prepayments may also be affected by other state restrictions, such as the homestead exemption in Texas that provides that a homeowner may only refinance a mortgage to raise funds up to the original principal amount. However, home sales have been a much more important source of prepayments of seasoned, low-rate loans than such refinancings, as indicated by Texas' fast prepayment rates during the past two-and-a-half years.

Pool classification

Each mortgage pool has been classified according to the location of the lender that originated the pool. The accuracy of this classification was examined in two ways. First, detailed information is available on the location of the property underlying all FHLMC Guarantor pools issued since July 1983; these pools comprise $15.5 billion in outstanding principal and represent 35 percent of the total FHLMC Guarantor market. We found that for 92 percent of the loans in these pools, the property is located in the seller/servicer's home state—that is, the loans are classified correctly.

In addition, the data show that 24 percent of the pools were put together by lenders that had originated pools in more than one state. For these multistate seller/servicers, 66 percent of the loans are located in their home state.

Second, a survey was conducted of the 80 largest seller/servicers for FHLMC Guarantor pools and FNMA pass-throughs. The sample included 35 percent of the $40-billion FHLMC Guarantor universe and 60 percent of the $23 billion total of FNMA pools[3]. The surveyed companies were asked whether all the properties underlying the mortgage pools they originated were located in their home state (single state), or whether some loans were located in another state or states (multistate).

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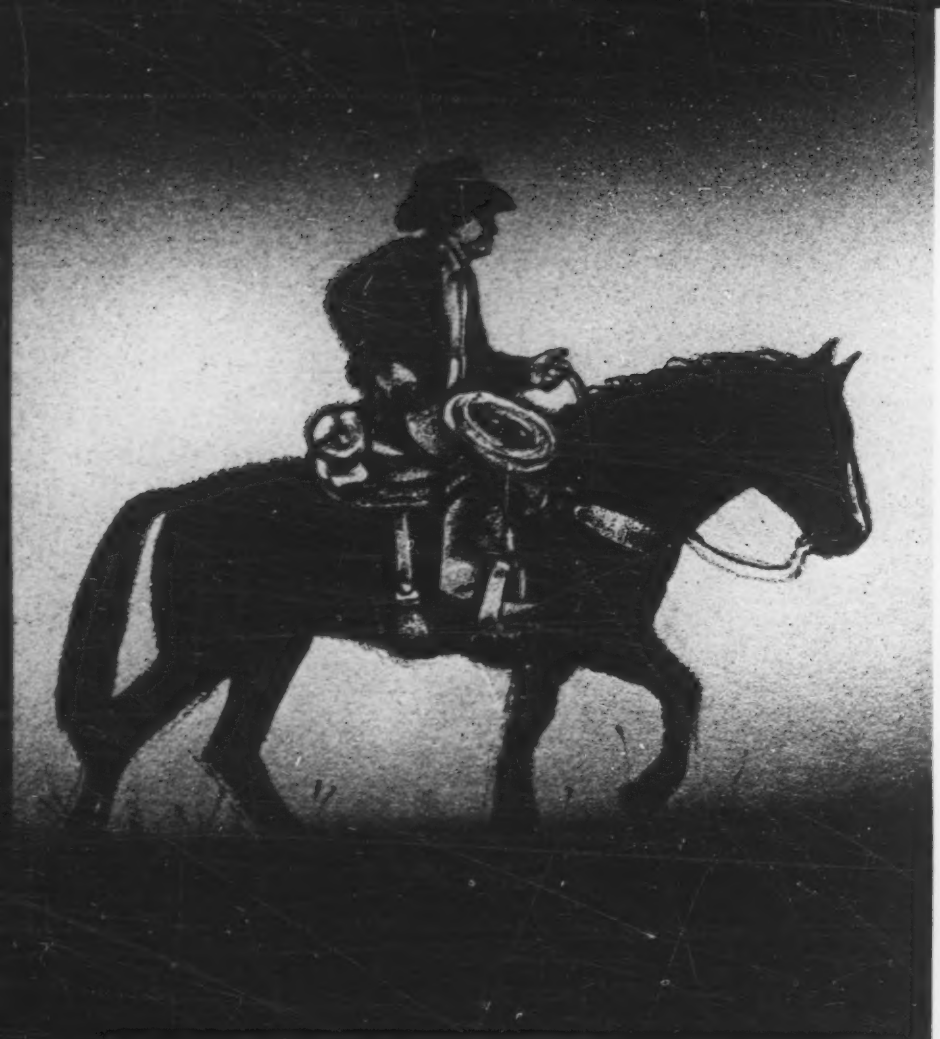

Figure 10.

Salomon Brothers Survey of FHLMC and FNMA Seller/Servicers
(Amount Outstanding as of June 1984; Dollars in Millions)

	FHLMC			FNMA		
	Single State	Multi-State	Total	Single State	Multi-State	Total
Thrifts	$ 9,600	$3,409	$13,009	$7,783	$2,994	$10,777
Others	648	625	1,273	1,062	1,590	2,652
Total	$10,248	$4,034	$14,282	$8,845	$4,584	$13,429
Percentage of Total	72%	28%	100%	66%	34%	100%
Percentage Classified Correctly	100%	66%*	90%	100%	66%*	88%

*Projected from data on recent FHLMC Guarantor pools.

Figure 11.

Impact on Yield of FHLMC 8s
(22 years remaining to maturity, 78½ dollar price)

	First 10 Months 1984 Prepayment Rate	Mortgage Yield	Spread versus National Average
National Average	6.5%	12.51%	
Texas	7.5	12.75	24bp
Washington	4.3	12.00	-51

The results of the survey indicate that 28 percent and 34 percent of the FHLMC pools and FNMA pools, respectively, were originated by multistate seller/servicers. If it is assumed that 66 percent of the multistate seller/servicer loans are on properties in the lenders' home state (as in the recent FHLMC data), 90 percent of the FHLMC pools and 88 percent of the FNMA pools will be classified correctly. Because the trend toward industry diversification and multistate expansion is likely to continue, these percentages can be expected to decline over time.

The margin of error is probably greater for FNMA than for FHLMC pools, reflecting the heavier weighting of commercial banks and mortgage bankers, which tend to originate mortgages across a broader geographic area than thrifts. For the surveyed lenders, nonthrift companies originated more than twice the percentage of FNMA pools (20 percent) as FHLMC pools (9 percent) (see Figure 10).

Investment implications

The statistics presented here show that:

- Fairly wide differences in mortgage turnover rates existed between states for the 1982-84 period.
- While the prepayment rates of all states rose and fell with shifts in the national housing market climate, the differences between the states persisted.
- The underlying causes of these differences can be understood and analyzed in terms of each region's economic and demographic characteristics.

The significance of such regional patterns of prepayments to investors in discount mortgage-backed securities is that faster prepayments produce higher yields on these investments.

Figure 11 shows the yield on a pool of FHLMC 8s with 22 years remaining to maturity at a price of 78.5 for various prepayment rates. The prepayment rates shown are those experienced in the first 10 months of 1984 for all seasoned discount FHLMC Guarantor and FNMA pools, as well as for such pools in Texas and Washington.

Appendix.

Prepayment Rates by State Plus the District of Columbia and Puerto Rico
(Seasoned Discount FHLMC Guarantor PCs and FNMA Pass-Throughs[a])

State	Amount Outst[b]	1982	1983	1984					
				1st Half	July	Aug	Sept	Oct	10 Mos.
Alabama	$ 333	—	—	6.4%	6.2%	7.9%	6.0%	6.1%	6.4%
Arkansas	555	—	7.1%	8.0	7.5	7.0	8.3	6.7	7.8
Arizona*	672	—	3.8	4.1	5.5	5.8	3.6	3.9	4.3
California*	13,389	1.7%	4.9	6.3	7.1	6.5	5.1	4.0	6.0
Colorado*	789	—	6.4	5.3	10.8	5.9	4.1	9.3	6.2
Connecticut	426	—	—	6.1	8.1	7.7	7.3	4.2	6.4
Dist. of Colum.	679	—	5.3	5.8	7.1	7.4	7.7	5.9	6.3
Florida	4,564	3.0	5.3	6.4	6.5	7.1	5.5	5.4	6.3
Georgia*	1,031	—	5.7	6.8	8.6	6.9	8.1	6.1	7.0
Illinois	3,679	—	6.4	6.7	10.0	9.2	9.4	6.5	7.5
Indiana	475	—	5.8	6.9	9.5	7.4	5.6	4.4	6.9
Iowa*	457	—	—	6.4	7.0	7.1	6.1	4.8	6.3
Kansas	691	—	5.6	7.1	8.3	8.9	9.3	7.1	7.6
Kentucky	512	—	6.9	7.2	6.9	8.6	9.1	6.3	7.4
Louisiana	521	—	—	5.4	8.1	6.1	4.5	4.8	5.6
Maryland	1,727	—	5.9	6.3	8.0	7.7	6.2	5.1	6.5
Massachusetts	1,035	—	—	5.6	8.2	7.8	5.1	6.8	6.1
Michigan*	2,674	—	3.8	4.6	6.0	6.0	5.5	5.4	5.1
Minnesota*	1,662	—	5.7	6.5	7.3	8.9	6.4	6.9	6.9
Missouri	920	—	8.0	7.5	12.2	11.5	7.2	6.3	8.3
Nebraska	390	—	8.6	7.1	8.7	8.9	8.7	6.6	7.5
Nevada	286	—	—	7.0	7.9	8.7	5.3	5.0	6.9
New Jersey	1,773	—	5.9	5.6	8.5	7.1	6.1	5.2	6.1
New Mexico*	480	—	7.6	7.6	6.8	6.2	5.7	4.4	6.9
New York	1,674	—	5.2	5.0	6.7	7.9	5.8	5.3	5.6
North Carolina	1,140	—	6.8	7.3	8.7	8.6	6.7	6.1	7.4
Ohio	2,774	3.5	6.3	6.2	7.3	7.0	6.1	5.8	6.3
Oklahoma	378	—	7.6	7.1	7.3	5.3	5.5	6.4	6.7
Oregon	607	—	3.5	5.7	6.2	6.3	4.9	4.1	5.6
Pennsylvania	2,498	—	6.6	6.2	9.1	8.4	6.9	6.6	6.8
Puerto Rico	315	—	—	3.2	3.0	3.7	3.8	1.8	3.1
Rhode Island	291	—	6.7	6.1	10.5	7.0	9.2	6.5	7.0
South Carolina	415	—	—	8.7	9.7	9.2	8.0	8.1	8.7
Tennessee	652	—	6.5	6.0	9.2	5.9	8.3	10.9	7.1
Texas	3,414	5.5	7.3	7.5	8.5	9.0	7.1	6.3	7.5
Utah*	364	—	4.6	5.9	6.4	4.7	6.0	4.9	5.7
Virginia	1,525	—	6.2	6.7	10.0	10.3	7.9	6.0	7.5
Washington*	1,841	—	3.7	4.3	4.9	4.8	3.8	4.0	4.3
Wisconsin	618	—	6.2	6.1	7.1	6.7	6.8	4.7	6.2
Total	$59,193	3.2%	5.6%	6.2%	7.6%	7.4%	6.2%	5.4%	6.5%

[a]Conventional mortgage pools outstanding for two or more years with coupon rates at or below the prevailing current coupon; minimum $200 million outstanding.

[b]As of October 1984; dollars in millions.

**Window state.*

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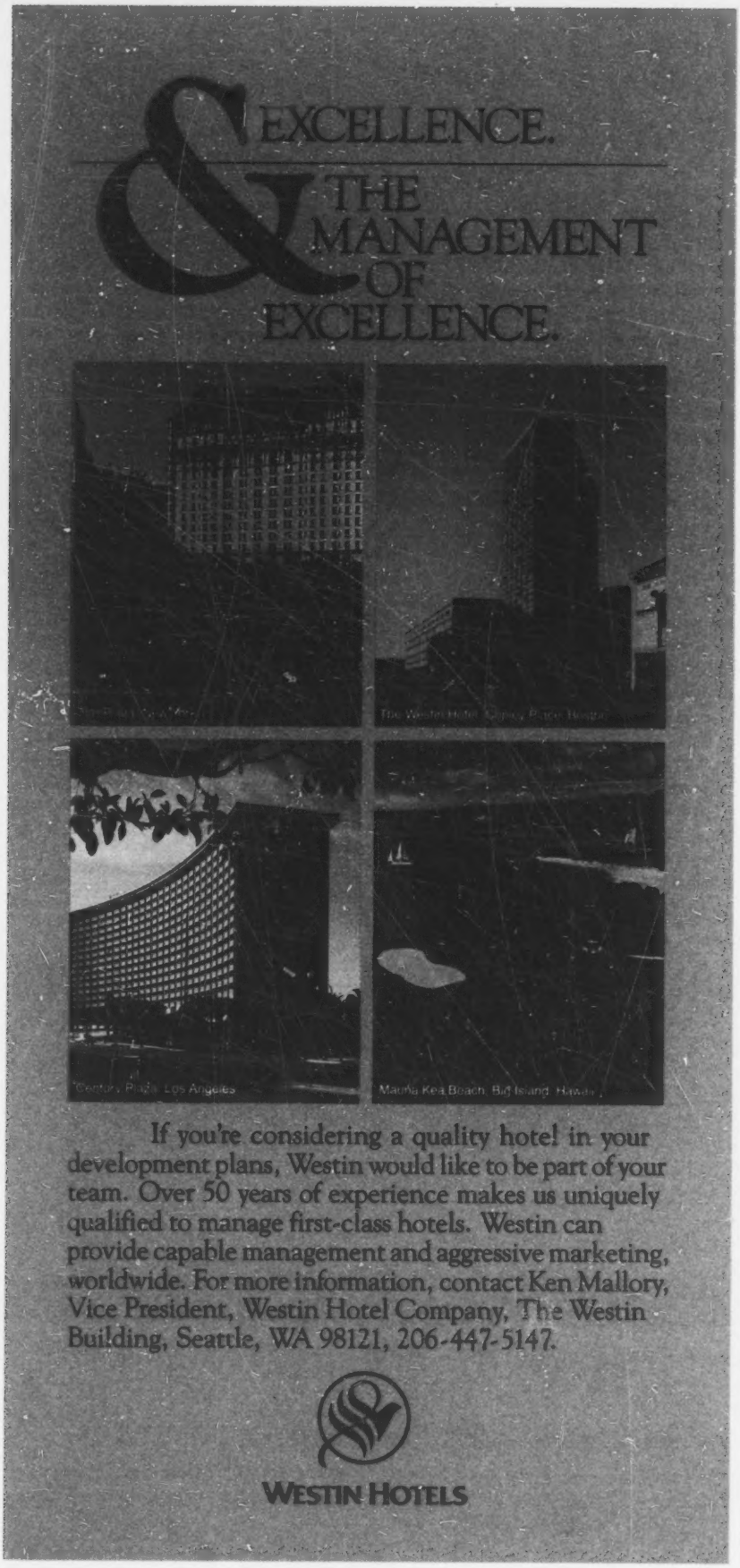
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REGIONAL DIFFERENCE

If prepayments occur at the national average rate of 6.5 percent, the FHLMC investment will generate a 12.51 percent mortgage yield. However, if prepayments match the 7.5 percent Texas prepayment rate, the yield would rise to 12.75 percent—24 basis points higher. On the other hand, if prepayments follow the slower 4.3 percent rate exhibited by the Washington pools, the yield would be only 12 percent—51 basis points less than the yield based on the national average prepayment rate. The differences in yield between these high and low figures is a sizable 75 basis points.

While the impact of regional prepayment differences on mortgage investment yields can be substantial, it should be understood that the recent prepayment differences displayed here may not be indicative of long-term patterns. Relationships have changed markedly over time, and, in some cases, even within the two-year-and-ten-month period covered in our study.

The roller coaster pattern exhibited by California illustrates this point—there was feverish housing activity and rapid mortgage prepayment rates in the late 1970s, a severe housing slump and extremely slow prepayment rates in 1981-82, and a recovery to national average prepayment levels by the beginning of 1984.

Nevertheless, the Salomon Brothers' study indicates the considerable differences that currently exist between the prepayment rates of different states. These results suggest that there is significant potential for improving the yield on a discount mortgage portfolio by selecting pools in more active prepayment areas. □

---

[1] *The prepayment rate is the percentage of outstanding loans that terminate in a given period, expressed as an annual rate.*

[2] *For mortgages originated by state-chartered institutions that subsequently converted to federal charter, it is the status of the lender at the time the loan was made that controls.*

[3] *Excluding FNMA multiple lender pools and FHLMC relocation pools.*

BANKING ON ENERGY

Charles "Vince" Hardwick, Jr.

Energy conservation benefits the homebuyer, builder, and lender. By reducing one of the homeowner's major fixed operating expenses—energy—conservation allows the homeowner to finance other expenses—a mortgage payment for example. Mortgage lenders therefore can take the borrower's increased borrowing capacity into consideration and permit higher debt-to-income ratios when underwriting the loan. These liberalized ratios allow more people to qualify (four to six million more according to Dow Chemical's recent promotional film), but should not increase the risk to the lender because they merely take into account proven savings. The builder also benefits because higher numbers of loan qualifications generate more sales.

Most of the energy-saver programs now in effect are the legacy of the fuel shortages and severe price increases of the 1970s. Reacting to these conditions, state and regional organizations developed building codes to set standards for energy efficiency in different types of structures. The federal government also became involved, setting the minimum property construction standards for Federal Housing Administration (FHA) and Veterans Administration (VA) residential homes. Partly in response to the perceived threat of government regulation, the housing industry, utilities, and private companies began to promote their own energy conservation programs. In the period between 1979 and 1982, to protect themselves from depressed sales, builders and lenders began to use these energy programs more extensively to increase loan qualifications and stimulate sales. Requiring energy-efficient buildings for lending is now standard procedure for the successful, forward-looking builder and lender.

Several conservation programs accepted by the Federal National Mortgage Association (FNMA or Fannie Mae), the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac) and direct lenders will be discussed. All these programs are based on the National Home Builders Association's Thermal Performance Guidelines (TPGs) for one- and two-family homes.

Thermal Performance Guidelines

The National Association of Home Builders (NAHB) was in the forefront of the energy-efficiency movement. It wanted to provide NAHB guidance for developing energy conservation programs but realized that such programs could not be successful without local initiative. In 1978, under the direction of Michael Bell, manager of NAHB's energy department, the Association established the Thermal Performance Guidelines (TPGs), a set of recommendations for insulation, glazing, water conservation, and other energy-saving components for more than 207 cities around the country. The standards consider the type of fuel used in each city, the average utility rates, and the cost of energy-saving materials and their installation. The goal of the TPGs is to maximize energy efficiency without significantly increasing the cost of the house. TPGs provided a common standard for energy efficiency that could be used nationwide but left organization and administration of particular programs in the hands of local Home Builders Associations. Some 12 to 14 Home Builder Associations are now promoting energy-efficient building in accordance with the TPGs, and some 26 to 30 have expressed interest in starting programs. The main obstacle to further expansion, as viewed by knowledgeable officials in the secondary market and building and manufacturing industries, has been the lack of consumer, Realtor, and lender awareness. Happily, the programs are becoming more visible as their success becomes more evident.

Program overview

E-7. Suburban Maryland Home Builders Association (SMHBA) started its E-7 program in 1979. The title "E-7" came from the initially projected, seven-year payback on investment from energy savings; the payback is even shorter today. The program recognizes

continued

ILLUSTRATION BY: STEPHEN WAGNER

Table 1

		(1) National Average Natural Gas Price	(2) Refiner & Gas Plant Operator Sales Prices of Petroleum Products to End Users Cents per Gal. Excl. Tax, No. 2 Fuel Oil	(3) Average Retail Electricity Prices for Privately Owned Utilities
1973	Average	1.29		2.54
1974	Average	1.43		3.10
1975	Average	1.71		3.51
1976	Average	1.98		3.73
1977	Average	2.35		4.05
1978	Average	2.56	40.0	4.31
1979	Average	2.98	51.6	4.64
1980	Average	3.68	78.8	5.36
1981	Average	4.29	91.4	6.20
	January	4.65	94.4	6.22
	February	4.69	95.0	6.35
	March	4.78	90.6	6.58
	April	4.86	85.0	6.72
	May	5.17	84.4	6.94
	June	5.20	85.1	7.08
	July	5.23	83.6	7.18
	August	5.23	86.3	7.22
	September	5.41	86.2	7.18
	October	5.66	89.8	7.21
	November	5.68	94.2	6.94
	December	5.74	93.9	6.71
	Average	**5.17**	**90.5**	**6.86**
1983	January	5.84	100.9	6.65
	February	5.85	97.0	6.73
	March	5.94	93.0	6.93
	April	6.04	89.1	6.91
	May	6.20	89.5	7.20
	June	6.18	87.3	7.41
	July	6.19	85.1	7.50
	August	6.16	86.1	7.52
	September	6.16	88.0	7.55
	October	6.08	89.0	7.50
	November	6.02	90.1	7.25
	December	6.03	92.1	6.97
	Average	**5.99**	**91.6**	**7.18**
1984	January	5.96	97.7	6.76
	February	5.99	104.6	6.98
	March	5.97	94.7	7.16
	April	5.98	91.9	7.32
	May	6.17	R90.0	7.58
	June	6.11	86.9	7.89
	July	6.15		

1) Monthly residential prices are Energy Information Administration calculations.

2) Sales for Resale are those made to purchasers who are other-than-ultimate consumers, that is, wholesale sales. Sales to End Users are those made directly to the ultimate consumer including bulk customers such as agriculture, industry, and utilities, as well as residential and commercial customers.

Preliminary estimate. R=Revised. NA=Not available

Notes:

•Geographic coverage is the 50 states and the District of Columbia.

•Data for 1973 through December 1982 are final. All other data are preliminary unless otherwise indicated.

3) Data through 1979 cover privately owned electric utilities in Classes A and B. Data for 1980 forward cover selected privately owned electric utilities in Class A whose electric operating revenues were $100 million or more during the previous year.

Source: Monthly Energy Review June 1984, Energy Information Administration.

builders whose residential structures incorporate prescribed levels of insulation and other energy conservation features that exceed mandatory building code requirements. Shortly after SMHBA compiled an E-7 manual, the Association was able to persuade the state of Maryland to accept E-7 standards as meeting or surpassing state building requirements. Some districts now accept an E-7 certification as proof that a house meets their standards without requiring additional documentation from the builder. As of November 1984, approximately 65 percent of SMHBA builders and 80 percent of the homes were E-7 certified. In Virginia, approximately 22 percent of the builders and 60 percent of the products are certified. E-7 homes are generally considered to be 20-40 percent more efficient than existing national housing stock.

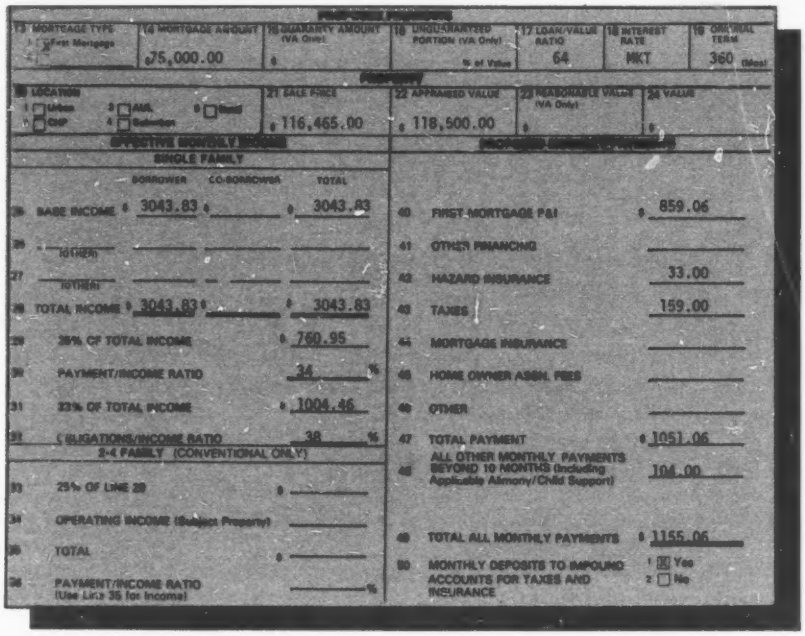
Enrollment into the program is simple and can be easily administered by the builder. To do so, a short application and an Indemnity Agreement Form must be submitted to the Builders Association. Each association's energy committees then consider the application and decide whether the energy conservation features listed for a given model meet the TPG standards for the appropriate geographical area. The associations' officers or staff in no way certify that any individual house has actually been constructed in compliance with those standards. However, the builder issues a certificate to the homeowner warranting that the home at a specific address and lot number was built in compliance with the association's E-7 Conservation Standard.

When a loan is applied for on an E-7 home, the builder presents the energy

continued

Charles V. Hardwick, Jr. is vice president of Nationwide Lending Group, Inc. in McLean, Virginia, a subsidiary of Hill Financial S.A. of Pennsylvania. He has been lending on E-7 houses for two and a half years and has promoted energy-saver programs both locally in the Washington metropolitan area and nationally.

Number 1
Case Study



13 MORTGAGE TYPE: 1 First Mortgage	14 MORTGAGE AMOUNT: $75,000.00	15 QUALIFY AMOUNT (VA Only): $	16 UNGUARANTEED PORTION (VA Only): % of Value	17 LOAN/VALUE RATIO: 64	18 INTEREST RATE: MKT	19 ORIGINAL TERM: 360 Months
20 LOCATION: 1 Urban 2 Suburban 3 Rural 4 MHP	21 SALE PRICE: $ 116,465.00	22 APPRAISED VALUE: $ 118,500.00	23 REASONABLE VALUE (VA Only): $	24 VALUE: $		

EFFECTIVE BUYER(S) INCOME — PROPOSED MONTHLY HOUSING EXPENSE

SINGLE FAMILY

	BORROWER	CO-BORROWER	TOTAL
25 BASE INCOME	$ 3043.83	$	$ 3043.83
26 (OTHER)			
27 (OTHER)			
28 TOTAL INCOME	$ 3043.83	$	$ 3043.83
29 28% OF TOTAL INCOME			$ 760.95
30 PAYMENT/INCOME RATIO			34 %
31 33% OF TOTAL INCOME			$ 1004.46
32 OBLIGATIONS/INCOME RATIO			38 %

2-4 FAMILY (CONVENTIONAL ONLY)

33 25% OF LINE 28	$
34 OPERATING INCOME (Subject Property)	
35 TOTAL	$
36 PAYMENT/INCOME RATIO (Use Line 35 for Income)	%

40	FIRST MORTGAGE P&I	$ 859.06
41	OTHER FINANCING	
42	HAZARD INSURANCE	33.00
43	TAXES	159.00
44	MORTGAGE INSURANCE	
45	HOME OWNER ASSN. FEES	
46	OTHER	
47	TOTAL PAYMENT	$ 1051.06
48	ALL OTHER MONTHLY PAYMENTS BEYOND 10 MONTHS (Including Applicable Alimony/Child Support)	104.00
49	TOTAL ALL MONTHLY PAYMENTS	$ 1155.06
50	MONTHLY DEPOSITS TO IMPOUND ACCOUNTS FOR TAXES AND INSURANCE	1 [X] Yes 2 [ ] No

certificate, the appraisal, and the Freddie Mac Energy Addendum (Form 70A) to his lender for reference during loan processing. Debt-to-income ratios vary according to what the lender's loan committee is comfortable with, but average from 30/38 to 32/40 compared with the usual 28/36 for non-energy-efficient homes.

Watt Count—a private engineering company. Watt Count of Middle Tennessee, a private engineering firm, uses a somewhat different approach. They apply aerospace technology, the same techniques that allow NASA spacecraft to withstand extreme environmental conditions.

Watt Count began its program in the early 1970s. They now have letters from lenders as well as from the U.S. Department of Housing and Urban Development's Nashville, Tennessee office, agreeing to add $.75 to $1.00 per square foot to the appraised value of a house in consideration of improvements made under the Watt Count program. Obviously, this addition will allow larger loans and may encourage builders and consumers to construct and purchase energy-efficient homes. Watt Count feels so confident about its program that it will guarantee the consumers' heating and cooking bills or pay the difference.

VEPCO—A utility company's approach. Utility companies such as Virginia Electric and Power Company (VEPCO), Potomac Electric & Power Company (PEPCO), and Gulf Power are also operating energy-efficiency programs. Their motive is to reduce energy demand and thus delay having to construct costly new power plants.

VEPCO feels their program is special because VEPCO currently inspects homes and warrants to the lending community that they have been built according to the technical specifications of VEPCO's program. VEPCO also keeps records on all the homes in its computers so that lenders can verify what energy features are in a particular house.

VEPCO's program does run parallel to the NVBA and SMHBA E-7 Program, all based on NAHB TPGs, although it has its own higher energy standards on heating and air-conditioning equipment. VEPCO's objective is to get 20 percent acceptance by the marketplace for new homes' power connections. Now, it generally gets about 15 percent based on recorded utility hook-ups. Lenders that recognize the program use 3-5 percent higher debt-to-income ratios with 3-4 percent as the average. Thirty-three direct lenders as well as FHLMC have pledged to support VEPCO's approach.

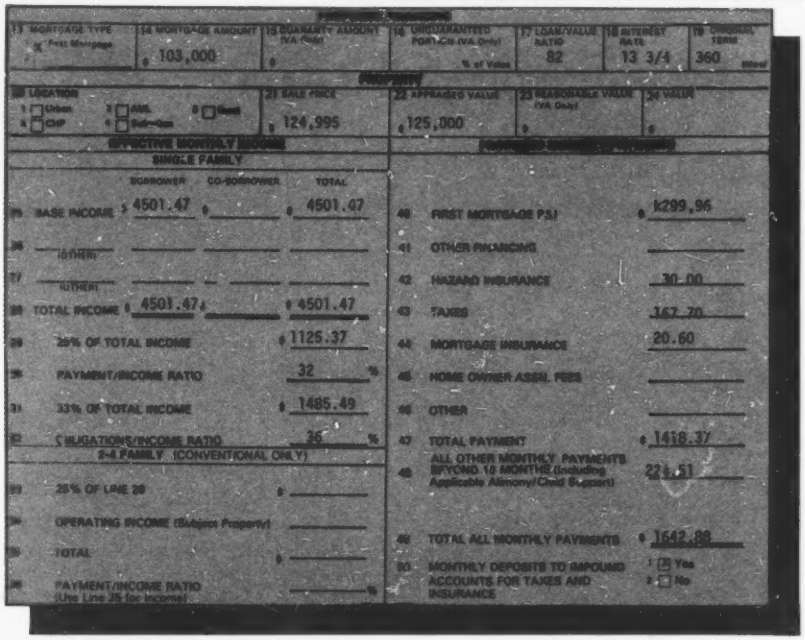
Owens/Corning Fiberglass—an insulation manufacturer. Owens/Corning Fiberglass Corporation markets the company's "Thermal Crafted Home" program to builders in the Midwest. Owens/Corning emphasizes training and will teach the builder to install the energy savings devices and the sales people to market the energy efficiency of the house. In selected cities, including Minneapolis and Kansas City, this helps the builder-client make a presentation to the lender, comparing minimum property-standards homes with Thermal Crafted Homes to convince the lender to increase debt-to-income ratios.

To determine eligibility for program membership, the company's technical representatives analyze the building plans for each model and enter the data into a computer pre-programmed for some 20 component items for every city in the country. If the builder's home meets their criteria, it is then able to use the name Thermal Crafted Home.

Western Resources Shelter Industry—a university program. Even universities have become involved in promoting energy-efficient building. Western Resources Shelter Industry Program is a non-profit corporation that grew out of Western Resources Center of the University of Washington in Seattle. It is a multi-faceted, industry-developed response to the impact of rising energy

continued

Number 2
Case Study



costs on the housing market. Nineteen major lenders, 450 appraisers, and over 200 underwriters in the Pacific Northwest have been convinced to use the Uniform Rating System. In September 1984, the project was selected to receive a national award from the U.S. Department of Energy for energy innovation.

The program offers formal training to loan underwriters and appraisers, provides materials for loan officers, and supplies internal operations guidelines, consumer marketing material, and training material for branch operators. The Federal Home Loan Bank Board of Seattle has become a major sponsor of the program and is working with lenders in the FHLB 12th district to encourage use of the Uniform Energy Rating System throughout the district.

The secondary market

Some direct lenders may still be uncomfortable with the higher debt-to-income ratios. Lenders will be glad to know that they do not have to take that risk alone. Both Freddie Mac and Fannie Mae have approached energy saving with enthusiasm and creativity (see Figure 1) to motivate builders and direct lenders to take advantage of efficient, cost-effective construction.

Freddie Mac & Fannie Mae. Freddie Mac began working on energy underwriting issues in 1979 because of its concern with rising energy costs and their impact on the qualifying ability and staying power of home purchasers. Freddie Mac was concerned about the increasing portion of the homeowner's budget that energy costs would represent. Freddie Mac felt that if it came down to mortgage payments vs. heating bills, the heating bills would be paid first. Because some builders were being forced by state and local building codes to put energy-efficient materials in homes, Freddie Mac thought that the lender should recognize the measurable and certifiably lower energy costs these improvements helped achieve. Otherwise, the costs of the additions would simply add to the price of the house and prevent the already marginally qualified buyer from getting a loan. Freddie Mac has therefore encouraged lenders to voluntarily take energy efficiency into account in underwriting loans.

Fannie Mae approaches energy savings like a pay raise and feels that, as such, only 28 percent of the savings should be applied toward the borrower's increased principal and interest payments. Fannie Mae is very enthusiastic in encouraging energy efficiency and feels comfortable with up to a 2 percent increase in debt-to-income ratios. Because of this 2 percent increase, the borrower's affordability has been enhanced markedly. Fannie Mae's procedure is special because it is easy for the direct lenders to follow and will provide some of the hand-holding that direct lenders have asked for. Fannie Mae's marketing department is beginning an aggressive promotional campaign for the purchase of energy-efficient home mortgages.

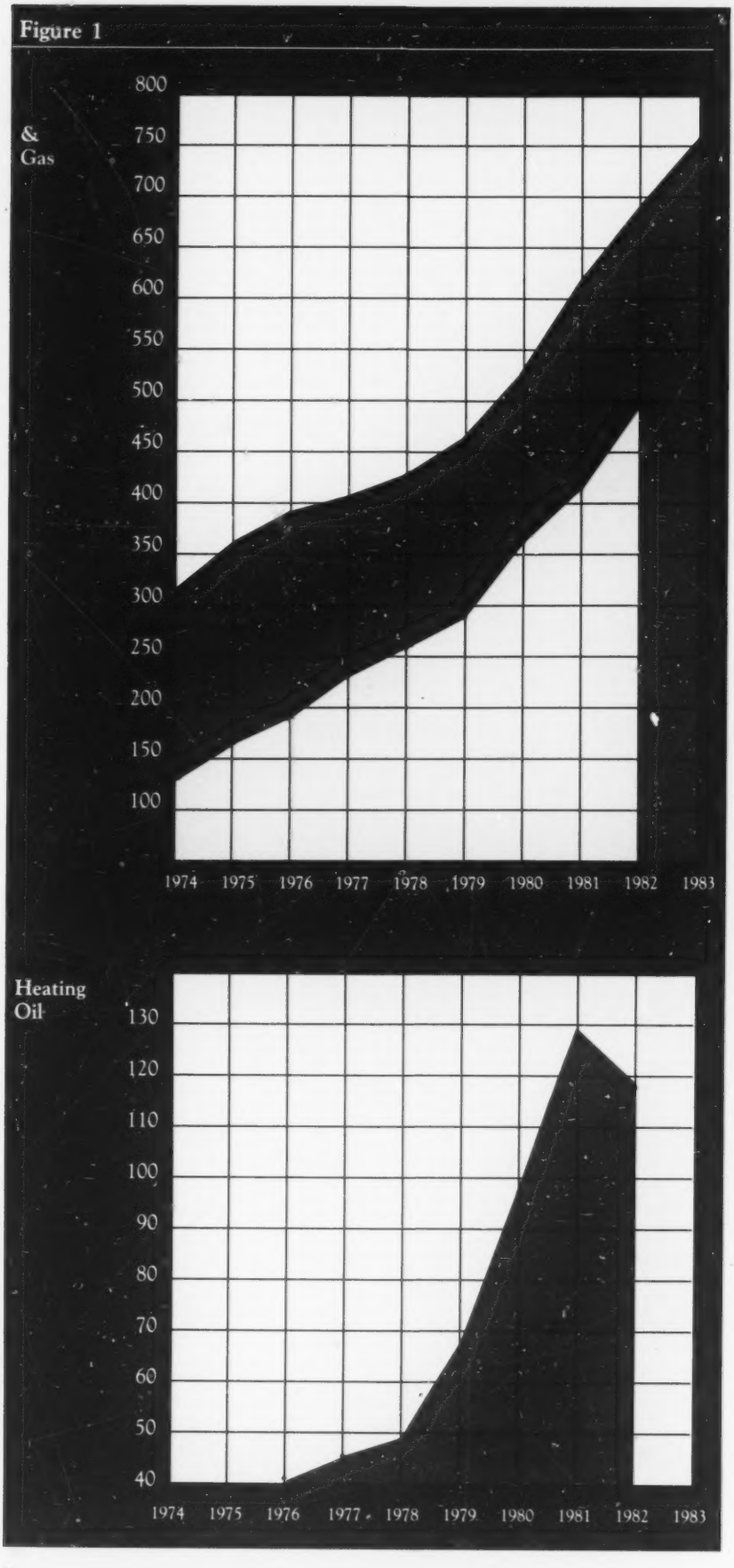
Selling to the secondary market

Freddie Mac and Fannie Mae will purchase all of these loans at the higher ratios, as long as the houses conform to NAHB's Thermal Performance Guidelines and normal underwriting guidelines have been followed. The procedure for selling a loan on a energy-efficient home to Freddie Mac and Fannie Mae is no more involved than for that of a non-energy-efficient home.

The sale of loans by preferred Freddie Mac sellers requires only a contract summary listing all loans, although the necessary documentation, including Freddie Mac Form 70A, must be in its file. No explanation of the higher ratios is needed at the time of sale. For non-preferred sellers, a prior approval submission is undertaken. This must be submitted before the purchase of the loan and should include the 70A Energy Addendum, the appraisal mentioning the energy qualities of the home, and the homebuyer's certificate, if any. Post-funding audits for preferred sellers consists of an in-depth review of the file for the same items as the non-

continued

Figure 1



preferred lender, i.e., the appraisal, 70A Energy Addendum, and any certificate that has been issued.

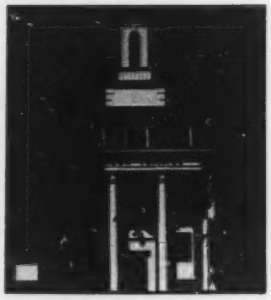
For Fannie Mae, either the Energy Addendum Form 70A or other evidence that the house was built in accordance with the NAHB TPGs is sufficient. Fannie Mae has indicated that it does not want to involve itself in the evaluation of specific energy programs.

Case studies

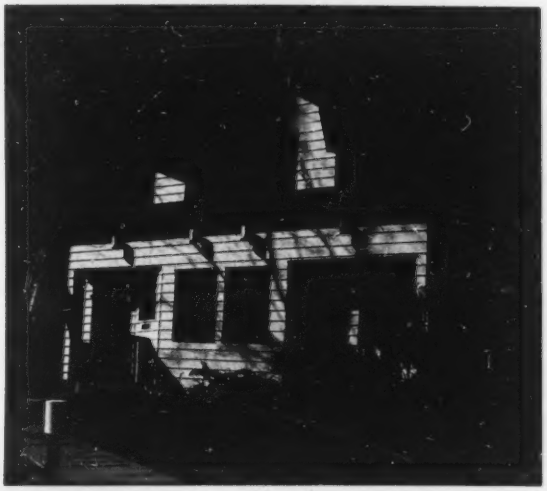
Two case studies (Figure 2) illustrate the advantage of buying an energy-efficient home. In the first case, a young couple purchased a $116,365 home in Montgomery County, Maryland—a suburb of Washington, D.C. They put down a deposit of $41,465. The husband was employed by a major computer company as an instructor. His gross monthly salary was $3,043 or $36,500 annually. A $75,000 loan was requested at market rates—at that time, 13.5 percent. The loan was approved in spite of ratios of 35/38 because the home was E-7 certified.

Another Maryland couple had their loan application approved under similar circumstances. The husband had eight years' experience in the computer business and was at that time controller of his company. His gross monthly income was $4,501 or $54,000 per year. The loan requested was $103,000 on a $124,995 purchase price. This home was also located in the Washington, D.C. metropolitan area. Market rates at the time of application were 13.75 percent. The downpayment was $21,995. The front ratio was 32, and the long-term debt ratio was 36. Again, Nationwide Lending Group's loan committee granted the loan because the home was a certified E-7 house.

These facts and figures about energy-saver programs are persuasive, but our actual experience with the programs has been even more convincing to us at Nationwide—and to many other lenders and builders. In the end, it is the happy customers, increased sales and lending volume, and investment-quality loans that have made energy conservation a valued part of the business. □



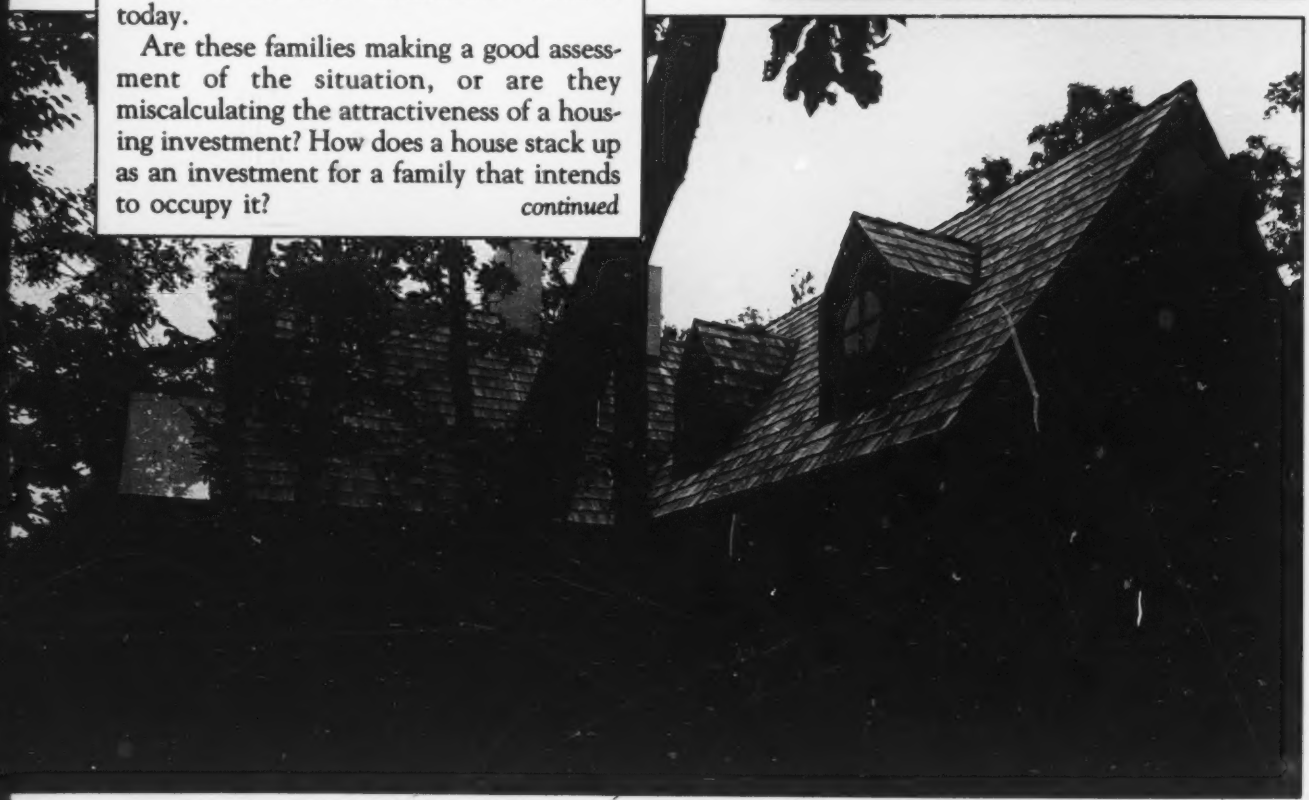
THE HOUSE AS AN INVESTMENT: AS ATTRACTIVE AS EVER?



Daniel Durning
Michael S. Salkin

California's housing market has rebounded impressively from the recession that had cut deeply into house building and resales. The pace of the recovery and the continued strong demand for home ownership in the state reflect the belief of many families that buying a house is one of the best investments available today.

Are these families making a good assessment of the situation, or are they miscalculating the attractiveness of a housing investment? How does a house stack up as an investment for a family that intends to occupy it? *continued*



House purchase as an investment

A house purchase is often considered as simply acquiring a shelter and its related amenities. There is, however, another important aspect of purchasing a house. The buyer is the consumer of housing services as well as the landlord. As landlord, the buyer pays the costs of acquiring the property and maintaining it. In return, the landlord gains or loses wealth as the value of the house rises or falls.

The house purchase consists of several elements that involve the owner as both occupant and landlord:

- *Housing services.* The owner-occupant receives the "services" provided by the house, neighborhood, city, and so on. If the family rented rather than owned the house, it would pay rent for these services. The value of the housing services consumed by the owner-occupant is often called "implicit rent."

If the owner-landlord did not reside in the house and instead were paid rent, the net rent (rent minus depreciation and maintenance) would be taxable. One of the advantages of being the landlord of an owner-occupied house is that the implicit rent is not taxed.

- *Deposit account.* The buyer as landlord makes a downpayment and pays off his mortgage loan on a regular basis. If the value of the house remains unchanged, the downpayment and principal payments are recouped by the owner when the house is sold. Many comments have been made on the value of this enforced deposit account, noting that it imposes a discipline often lacking when households try to save money by simply making deposits into standard savings accounts.
- *Investment return.* The investment return on a house purchase is heavily dependent on changes in the house value. With the high leverage obtained due to low downpayment requirements, even small increases in the value of a house are magnified into large investment returns when the house is sold.
- *Tax breaks.* The investment potential of housing is enhanced by the tax breaks associated with home ownership. The major tax breaks include the following: (a) the lack of taxation of net implicit rent, (b) the tax deductibility of interest and property tax payments, and (c) the taxation of the gain in house equity (upon sale of the house) as capital income, with the ability to avoid taxation of the capital gains if it is reinvested in another house of at least equal value, or if the owner is over 55 years of age.

Table 1

The Internal Rate of Return on the Median-Valued House Purchased in California, 1960-1984*

Years of Ownership	Annual Internal Rate of Return
1960-67	10.9%
1970-77	31.6
1971-78	35.8
1972-79	37.6
1973-80	29.3
1974-81	39.7
1975-82	37.1
1976-83	36.7
1977-84	31.0

Housing investment in California

The investment return on owner-occupied housing in California during the 1970s was extraordinary. To estimate the returns, internal rate of return (IRR) calculations were made for a "typical house" owned by a household with a median income.[1] To simplify these IRR calculations, several assumptions were made about the characteristics of housing market transactions.[2]

The annual investment return on the purchase of a house in California was about 10.9 percent for a house bought in 1960 and sold seven years later. This rate of return was attractive for the average household, though it was not spectacular. (See Table 1.)

In the 1970s, the annual returns on house purchases were spectacular, especially when the purchases were made prior to 1978. The annual IRR peaked at nearly 40 percent a year for a house bought in 1974 and sold in 1981. The annual IRR for a house bought in 1977 and sold in 1984 declined slightly to 31 percent.

Investment returns

The IRR estimates for houses bought after 1978 are partially dependent upon changes in house prices after 1984. In Table 2, three different estimates of changes in house prices were made to reflect three forecasts of possible rates of inflation.

In the standard forecast, house prices increase about 6 percent per year throughout the 1980s. In the low forecast, house prices are assumed to increase about 3 percent per year. In the high forecast, price appreciation of about 8 percent per year is assumed. Based on these estimates of price appreciation, calculations of the investment returns (IRRs) were made. In Table 3 the IRRs are presented. Using the standard rates of price appreciation from Table 2, the IRRs for houses bought between 1978 and 1980 and sold seven years later gradually declined from 28.5 percent to 18.7 percent. Using the low appreciation assumption, the IRRs drop from 27.9 percent to 15.2 percent. The high-rate IRRs range from 29.0 percent to 19.8 percent. In all three cases the range of investment return is quite narrow, suggesting that small changes in house prices are less important than an owner's tax bracket and leverage.

The pace of house price increases in California slowed drastically after 1980 and consequently so did the investment returns to owner occupancy. There are several factors that could reduce the likelihood that house prices will greatly exceed inflation in the near future. Present high house prices in the metropolitan regions of the state, high real

continued

Daniel Durning is a doctoral student in the Graduate School of Public Policy, University of California at Berkeley.

Dr. Michael S. Salkin is Vice President and Senior Economist with Bank of America's Economics-Policy Research Department, and Head of California Economic Research.

Table 2

Forecast of House Price Appreciation Rate 1984-1991

Year	Standard Forecast*	Low Forecast**	High Forecast***
1984	4.9%	—	—
1985	5.6	2.6	7.6
1986	6.1	3.1	8.1
1987	6.5	3.5	8.5
1988	5.9	2.9	7.9
1989	5.5	2.5	7.5
1990	6.1	3.1	8.1
1991	5.9	2.9	7.9

*The 1-4 standard MIRA inflation rate forecast, spring 1984.
**The low forecast is set at 3 percentage points below the standard forecast.
***The high forecast is set at 2 percentage points above the standard forecast.

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interest rates, and the restructured mortgage market that shifts much of the inflation risk to mortgage borrowers will act to constrain house prices from rising very quickly.

Because house price appreciation will probably remain moderate, is home ownership still a good investment in the 1980s? This question is addressed by showing the investment returns on housing purchased from 1981 through 1984 and sold from 1988 to 1991 under seven different scenarios that vary with price appreciation, inflation and returns on alternative investments.

Scenarios

House prices increase at the same rate as inflation. According to these scenarios, house prices and inflation increase at the standard forecast rate (Scenario 1); at the low rate (Scenario 2); or at the high rate (Scenario 3). See Table 2 for the different house price appreciation forecasts.

These three scenarios are based on the expectation that house prices will increase parallel to the annual changes in the Consumer Price Index (CPI). At present, most forecasters seem to believe that house prices will follow the CPI in California during the next few years. So these three scenarios can be seen as the most likely to occur.

House prices increase at a rate less than inflation. According to these two scenarios:

a. The inflation rate is high, but house prices increase at the standard rate (Scenario 4).

b. The standard inflation forecast is correct, but house prices increase at the low rate (Scenario 5).

These two scenarios suggest that house prices will increase at a slower pace than the CPI for several years after 1984. During the 1970s, house prices tended to increase faster than the CPI. There were no long periods during the decade when CPI rose faster than house prices. In fact, during most of the decade house prices increased much faster than CPI.

continued

Table 3

Future IRR on Housing Purchases

Years of Ownership	IRR (Standard Appreciation Forecast)	IRR (Low Appreciation Forecast)	IRR (High Appreciation Forecast)
1978-85	28.5%	27.9%	29.0%
1979-86	24.1	22.5	25.0
1980-87	18.7	15.2	19.8

**The calculations of IRRs are based on assumptions described in footnote 2. It is assumed that the house was or will be sold after the seventh year of ownership.*

Scenarios 1, 2, and 3

House Price Appreciation And Inflation Are Equal After 1983

	Scenario 1		Scenario 2		Scenario 3	
Years of Ownership	Standard Rate IRR*	Altern. Invest.**	Low Rate IRR	Altern. Invest.	High Rate IRR	Altern. Invest.
1981-88	16.6%	12.4%	12.3%	9.6%	19.2%	14.4%
1982-89	17.1	12.3	11.4	8.8	20.4	14.8
1983-90	18.5	13.2	11.5	9.0	22.5	16.3
1984-91	18.4	13.4	9.7	8.6	23.2	17.1

**IRR on an owner-occupied house.*
***Average annual return on an alternative investment with a real interest rate of 4 percent.*

Scenarios 4 and 5

House Prices Increase at a Rate Less Than Inflation

	Scenario 4		Scenario 5	
Years of Ownership	Standard Rate IRR*	Altern. Invest.**	Low Rate IRR*	Altern. Invest.***
1981-88	16.6%	14.4%	12.3%	12.4%
1982-89	17.1	14.4	11.4	12.3
1983-90	18.5	14.8	11.5	13.2
1984-91	18.4	16.3	9.4	13.4

**This is the IRR on an owner-occupied house.*
***The alternative investment returns the high rate of inflation, plus 4 percentage points.*
****The alternative investment returns the standard rate of inflation, plus 4 percentage points.*

Scenarios 6 and 7

House Prices Increase at a Rate Faster than Inflation

	Scenario 6		Scenario 7	
Years of Ownership	Standard Rate IRR*	Altern. Invest.**	High Rate IRR*	Altern. Invest.***
1981-88	16.6%	9.6%	19.2%	12.4%
1982-89	17.1	8.8	20.4	12.3
1983-90	18.5	9.0	22.5	13.2
1984-91	18.4	8.6	23.2	13.4

**This is the IRR on an owner-occupied house.*
***The alternative investment returns the low inflation rate, plus 4 percentage points.*
****The alternative investment returns the standard rate of inflation, plus 4 percentage points.*

House prices increase at a rate faster than inflation. According to these scenarios:

a. The standard inflation forecast is correct, but house prices increase at the high rate (Scenario 6).

b. The low inflation forecast is correct, but houses increase at the standard forecast rate (Scenario 7).

The final two scenarios forecast increases in house prices that exceed the rate of inflation. While this situation was common in the 1970s, it appears unlikely to occur in the next few years. Median house prices have risen to such a high level in California that it is difficult to believe they can continue to rise faster than CPI unless real incomes also increase very rapidly.

Some observers have forecast a "bust" in sales prices in California. They point out that house prices are much higher in the state than in other states and maintain that sales prices will tend to drop back toward national averages. At present, however, it appears that demand for housing remains high and that supply is still not keeping pace with demand, keeping pressure on house prices. It does not seem likely that prices will fall below CPI for an extended period in the next few years.

One more assumption allows a comparison of the IRR of the house purchase with alternative investments. It is conservatively assumed that an investor will be able to obtain an annual real return on an alternative investment of 4 percent.

An examination of the investment returns on owner-occupied housing under these seven economic scenarios indicates that owner-occupied housing is still a good investment and likely to yield higher returns than reasonable alternative investments. This conclusion assumes, of course, that the buyer pays the market value for a house—is informed and carefully shops for the house—and that the house is not located in an area of neighborhood decline and disinvestment.

If house prices increase with the rate of inflation, the investment return on

continued

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owner-occupied houses will exceed the return on alternative investments yielding a real after-tax return of 4 percent. The ability to leverage a family's limited funds and the income tax breaks provide the investment edge for housing in these situations.

If the rate of house price appreciation exceeds the inflation rate, home buyers will receive large returns on their housing expenditures. These rapid house value appreciation scenarios are most likely to be realized in only a few housing markets that suddenly become popular.

Families buying a house instead of using their money for an alternative investment appear to be making sound decisions. Their purchases reflect the belief that house prices will keep pace with inflation. While there is some risk that the lower house price appreciation will cause housing to yield less than other investments, at present, given the strong demand for single-family units, it appears that the risk is not large.

In November 1984, the U.S. Department of the Treasury announced its proposals for tax simplification. Included in the proposal were a number of changes that would affect real estate owners. For homeowners, the proposed changes, if passed into law, would increase the cost of ownership, lower property values and reduce the investment returns to homeownership. These changes pose a great risk to our forecast.

---

[1]*The IRR is a widely used calculation, though some analysts warn that it may overstate the return, due to implicit assumptions in the equation. Nevertheless, it appears to be the best available measurement of return on housing investment that is available.*

These IRR estimates must be used cautiously because they are based on aggregate market data and on forecasts. Despite limitations, however, these estimates provide a reasonable comparison of changes in IRR over time. It is not expected that any particular house has achieved or will achieve IRR comparable to those estimated in this report. Some houses will have higher IRRs, others lower. Local market conditions and house characteristics will determine the actual IRRs.

continued

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[2]The calculation of the IRR for any particular house depends on many different variables. In order to make a series of estimates of IRRs over time for a "typical house," some simplifying assumptions must be made. These assumptions are as follows:

- *The expected tenure is seven years. In other words, the house will be sold seven years after it was purchased. The internal rate of return is, then, the annual return during each of the seven years of ownership.*
- *The annual imputed rent is estimated at 10.8 percent of the value of the house. Thus, the imputed rent for a house valued at $100,000 is $10,800 per year or $900 per month.*
- *The annual maintenance costs are estimated at 2.5 percent of the value of the house.*
- *The annual property tax is calculated as 1.2 percent of the sales price, increasing by 2 percent each year.*
- *The closing costs for the home purchase are three points (3 percent of the mortgage loan).*
- *The term of the loan is 27 years.*
- *The selling cost is 7.5 percent of the sales price.*

The values of the remaining variables are determined for 1960-84 based on available data. For 1984-1991, certain variables are forecast based on Regional Data Associates (RDA) forecasts. The variables are as follows:

- *The house sales price for each year from 1974 to 1984 is set at the median sales price of resale houses as reported by the California Association of Realtors. The earlier house prices are estimated based on RDA data.*
- *House value appreciation is based on the annual changes in the median sales prices from 1960 through 1984. For years after 1984, three separate rates of house price appreciation are forecast. The three rates are (1) the standard rate that is based on the RDA standard inflation rate forecast (see Table 2), (2) a low rate that is the standard rate minus 3 percentage points, and (3) a high rate that is the standard rate plus 2 percentage points.*
- *The mortgage loan terms (interest rate and loan-to-value ratio) are the state averages reported by RDA.*
- *Marginal income tax rates are estimated for the moderate-income buyer. The rates are adjusted upward during the 1970s as a result of inflated incomes during the decade. The marginal tax rate is adjusted downward after 1981 due to the provisions of the 1981 Economic Recovery Tax Act.* □

TOMORROW'S ECONOMY

Daniel A. Blumberg

In the 1950s and 1960s the U.S. economy underwent very few shocks. It was not until the 1970s, when the Organization of Petroleum Exporting Countries (OPEC) doubled and then tripled the price of a barrel of oil that the Western world was thrown into a state of economic chaos. Governments and businesses could not increase revenues quickly enough to make up for rising petroleum prices. Therefore, some nations, including the United States, dramatically increased their money supplies in order to meet the higher cost of energy. In the U.S., this set off an inflationary spiral that was eventually halted by the worst recession since the Great Depression of the 1930s. Then came 59 months of recovery and inflation (1975 to 1979). This was followed by a recession that ran from late 1980 to the summer of 1982, when it was reversed by a great expansion of money supply.

Currently, the U.S. is experiencing impressive economic growth, so there is not much likelihood that the Federal Reserve (Fed) will institute an easy money policy, for fear of setting off another inflationary spiral. Thus, the direction of interest rates would seem to be upward because both business and government are competing for the same debt equity dollar.

On interest rates

In the 1940s, 1950s and 1960s, if interest rates moved 100 basis points in the course of a year it was considered a lot. However, by the late 1970s and early 1980s interest rates were moving as much as 200 to 400 basis points in a period of 60 to 90 days. The major reasons for this change in the volatility of interest rates are:

- The deficits currently incurred by the public sector are far greater than they have been as a percentage of gross national product (GNP) (3.5 percent in the 1970s and 7 percent in the 1980s).
- Deregulation, enacted in 1981, allows banks to pay whatever they want for the money they borrow to lend to their customers.
- The consumer has been conditioned to find higher rates acceptable.
- Billions of foreign dollars move in and out of the U.S., causing temporary surpluses and shortages of money.
- Multibillion-dollar mergers, which are transacted with borrowed funds, are taking place.
- The market is very sensitive to money supply figures. In past decades money supply figures had very little effect on interest rates.
- Large banks fear shortages of capital because of defaulted loans.

Guns and butter=inflation

In a "guns-and-butter economy" such as today's, either the private sector can pay the higher interest rates or the government can print money, and the price will be higher inflation rates.

On Friday, April 7, 1984, the Fed raised the discount rate (the rate the Fed charges member banks when they come to the discount window for loans) from 8.5 percent to 9 percent. This particular rise in the discount rate was noteworthy because the Fed had kept the discount rate at 8.5 percent for 15 months (the longest period the discount rate had remained steady for more than 12 months since 1979). This rise in the discount rate substantiated a tight-money, anti-inflation policy by the Fed.

The anticipated deficit over the next three years is roughly $600 billion. This would increase the national debt by 60 percent, and it would cause Americans to pay more than 20 percent of every tax dollar just for interest on the national debt. Current bills in Congress are anticipated to reduce the deficit by approximately $150 billion over the next three years. This still is a drop in the bucket when one considers the consequences of even a $450 billion deficit. Simply stated, if business continues to borrow at the current rate and the Treasury has to go to the market to borrow $450 billion, interest rates must substantially increase, unless the federal government monetizes the debt by printing money. In the latter case, the consequence will probably be higher interest rates and inflation in 1986.

continued

"The Last Word" is an uncritical forum for readers who may wish to advance a new idea, comment on an old one, or offer their opinion on any subject of interest to the real estate finance industry. Opinions are those of the authors, and may or may not be shared by Mortgage Banking.

Rising factory use

In the past, whenever factory utilization exceeded 85 percent, inflation soon followed. The last four times that factory utilization exceeded 85 percent were in 1955, 1964, 1973 and 1978. (See Chart 1.) Between 1957 and 1961, inflation rose from 4.3 percent to 6.7 percent; from 1964 to 1970, it jumped from 1.2 percent to 6 percent; between 1973 and 1975, it moved from 3.5 percent to 12 percent; and, from 1978 to 1980, it shot up from 7.5 percent to 14 percent. The current factory operating rate is 81 percent, up from 68 percent as of the end of 1982.

Daniel A. Blumberg is president of Consolidated Capital Securities Corporation, the underwriter for real estate investment programs sponsored by Consolidated Capital, a full service real estate investment group based in Emeryville, California. Mr. Blumberg is also a cofounder, director, and principal shareholder.

Chart 1

Year Factory Utilization Hit 85%	Inflation Period	Percentage Increase In Inflation
1955	1957 to 1961	55%
1964	1964 to 1970	500
1973	1973 to 1975	343
1978	1978 to 1980	86

As the nation's factories draw closer to operating at full capacity, business demand for new capital will tend to push interest rates higher. If Congress passes realistic tax reform laws in 1984 and 1985 (that will reduce the deficit $300 billion over three years), the Fed will probably allow monetary growth beyond its current target range (5-9 percent for M1 and 4-8 percent for M2); interest rates (prime rate: 11.5 percent; Fed funds rate: 10 percent; discount rate: 9 percent) could hold within the 100 basis point range throughout 1985, and inflation could hold within 200 basis points of its current range (3.5

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percent—4.5 percent). However, for 1986 the prognosis is uncertain.

Trends

Since the end of World War II, the average recovery period following the last seven recessions has been 45 months. If economic history repeats itself, February or March of 1986 will mark the beginning of a recession (the recovery began June 1982). Because high interest rates are normally followed by an expansion of money, an increase of money supply in the spring of 1985 can be expected.

Because real estate tends to have a positive correlation co-efficient to inflation (it increases in value as inflation rises), it would appear that investments in income-producing real estate are warranted. In the early stages of an inflationary spiral the stock market also seems to perform well, but then tends to be hit hard as interest rates climb; if the Fed attempts to bring down interest rates through an easy money policy in the spring of 1985, the easy money policy will increase the probabilities that we will enter a period of contracting credit and higher interest rates by the spring of 1986. If this occurs, the stock market will suffer in 1986, but should do very well in 1985.

This scenario presumes that the economy is operating at close to full capacity and that there are no unusual major shifts of capital into this country. If the U.S. recovery is still going strong and the rest of the western world is looking at the U.S. as a haven for secure investment capital as well as a safe harbor in which to leave money, the U.S. recovery would last throughout 1986 and even longer, because a tightening of credit by the Fed could not prevent businesses from raising capital at competitive rates through commercial paper and private placements. On the other hand, if the rest of the western world is in the midst of a full-blown recovery, then U.S. investments would less likely be in great demand as a safe harbor.

Attempting to predict inflation and interest rates is a fool's game at best because there are many external events that cannot be predicted, many of which could have as dramatic an effect on further interest and inflation rates as the factors mentioned previously. The economic scenario discussed in this article is the most probable, however, based on recent U.S. history. Still, as events unfold, the predictions may change, along with the timing of those predictions.□

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MORTGAGE MARKET TRENDS

December 21, 1984

Maneuvering soft landings are difficult for public policymakers charged with the responsibility of stearing the U.S. economy. For this reason, the third quarter deceleration in economic growth is particularly noteworthy, for in the view of this writer, the slowdown should be interpreted as the first sign that the two-year-old economic recovery may indeed be headed for a soft landing.

After growing at an unsustainable and potentially inflationary 8.6 percent annual rate in the first half of 1984, real gross national product (GNP) growth settled down to a 1.9 percent annual rate in the third quarter. This reduction in the pace of economic activity represented a welcome shift to a slower, more durable rate of expansion. As such, this should be regarded as a pleasant departure from the trend of 1970s when business expansions were allowed to grow too fast, for too long, thereby producing the rising inflationary pressures that would ultimately choke off every recovery.

The Federal Reserve Board (Fed), the economy's pilot, deserves a great deal of credit for recognizing the need to slow the rate of the recovery long before signs of accelerating inflation became visible. Concerned that the rapid rate of growth in the first half of the year would indeed foster price instability and rising interest rates if allowed to continue, the Fed opted to slow the pace of money supply growth throughout the third quarter in an effort to cool off the economy. Thus, after growing at an 8 percent average annual rate in the first half of 1984, M1 (currency in circulation plus demand deposits) growth was brought to a standstill between late June and mid-November.

As we know, this monetary restraint substantially slowed the forward momentum of the recovery. After rising vigorously in the first half of the year, monthly retail sales fell abruptly, industrial production slowed sharply, and durable goods orders eased up for the first time in several months. At the same time, the steadily deteriorating trade sector continued to produce a significant drag on domestic growth.

The net effect and intended payoff of this orchestrated reduction in economic growth was a sharp drop in business loan demand, which in turn paved the way for a reversal in the upward drift of interest rates throughout the summer months. As of the second week in December 1984, rates on short-term Treasury bills had fallen by over 200 basis points to 8.38 percent, the prime rate had declined by 175 basis points to 11.25 percent, and long-term Treasury securities had dropped by over 230 basis points to 11.20 percent. Reflecting this trend, as of early December commitment rates on 30-year fixed-rate mortgages were averaging 13.2 percent, more than 100 basis points below the high reached in the summer.

In short, the Fed's application of the monetary brakes last summer may have avoided a repetition of another boom/bust cycle that typified the 1970s. By successfully lowering economic growth to a pace that is compatible with more affordable interest rates and continued price stability, the longevity of the current recovery has been enhanced. Despite the continued presence of large federal borrowing, the Fed's demonstrated commitment to maintaining price stability has allowed the economy to enter the third year of this recovery with favorable prospects that interest rates will not rise to stifling levels.

Indeed, the decline in interest rates experienced in the second half of 1984, combined with a highly probable move by the Fed toward a more stimulative monetary policy beginning in late 1984, suggests that economic growth will pickup by the first quarter of 1985. The 1.8 percent increase in November 1984 retail sales indicates that a renewed rise in consumer spending is likely to provide the initial impetus to this faster growth. Much of this improvement in economic activity will also be derived from an increase in housing activity. If interest rates on fixed-rate mortgages fall sufficiently, mortgage loan originations could rise sharply in the first quarter, with refinancing activity away from adjustable rate mortgages toward fixed-rate mortgages accounting for a substantial portion of origination volume.

The acceleration in first quarter growth, however, may stop and ultimately reverse the recent downward drift of interest rates by early in the second quarter. This, in turn, will slow housing activity by mid-year. At the same time, if it becomes apparent by the spring that the recovery is back on track and that little progress will be made in lowering the budget deficit, the Fed is likely to tighten up on reserve growth once again to slow the recovery and thereby to prevent a clashing of public and private sector loan demand.

Such a move by the Fed would moderately reduce economic activity throughout the second half of the year, setting the stage for a round of slowly declining interest rates in the fall of 1985. From the perspective of the real estate finance industry, this course of events could provide a pretty smooth landing from the heights attained during this recovery.

Edison R. Zayas
Economist

SELECTED INTEREST RATES

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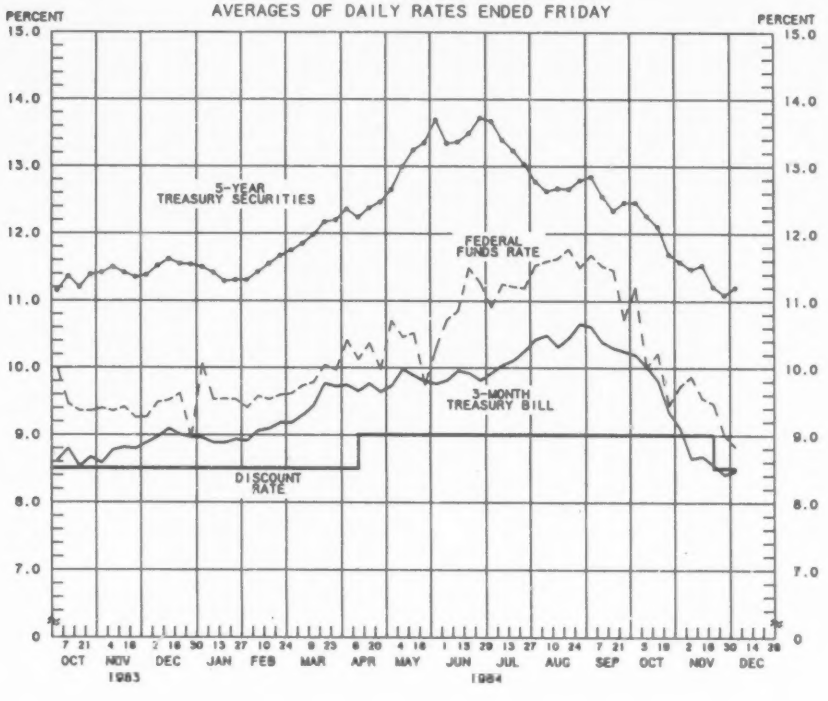

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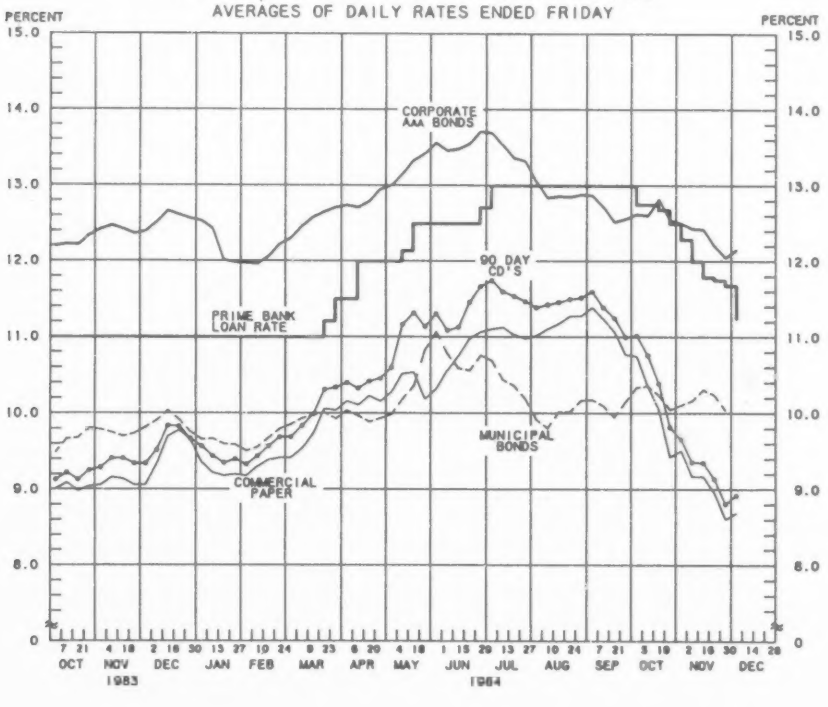

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MORTGAGE MARKET TRENDS—JANUARY 1985

RESIDENTIAL STRUCTURES, BY UNIT TYPE
(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1983												
JUL	148	93	55	1,752	1,068	684	162	113	49	1,793	1,175	618
AUG	155	98	57	1,671	1,032	639	177	121	56	1,873	1,233	640
SEP	150	91	59	1,540	994	546	155	108	47	1,679	1,153	526
OCT	142	89	53	1,630	1,049	601	159	102	57	1,672	1,113	559
NOV	124	79	45	1,649	1,060	589	136	93	43	1,730	1,204	526
DEC	108	65	43	1,602	1,056	546	107	69	38	1,694	1,154	540
1984												
JAN	111	67	44	1,799	1,144	655	109	75	34	1,980	1,415	565
FEB	125	78	47	1,902	1,234	668	130	89	41	2,262	1,611	651
MAR	147	100	47	1,727	1,136	591	138	99	39	1,662	1,208	454
APR	157	105	52	1,758	1,112	646	173	121	52	2,015	1,365	650
MAY	165	109	56	1,745	1,076	669	181	127	54	1,794	1,247	547
JUN	166	102	64	1,768	1,067	701	184	121	63	1,877	1,191	686
JUL	140	89	51	1,565	961	604	162	110	52	1,754	1,108	646
AUG	142	91	51	1,506	943	563	147	102	45	1,554	1,045	509
SEP	128	80	48	1,440	963	477	148	100	48	1,679	1,123	556
OCTp	135	85	50	1,408	894	514	150	99	51	1,515	1,041	474
10months												
1984	1,417	904	513				1,522	1,043	479			
1983	1,372	890	482				1,459	1,019	440			
1982	811	516	295				870	613	257			
1981	873	595	278				960	710	250			

VALUE OF NEW CONSTRUCTION PUT IN PLACE
(Dollars in millions)

Year and Month	Seasonally Adjusted Annual Rate			
	Total	1 Unit	2+ Units	Non-Res.
1983				
JUL	$152,028	$67,598	$25,082	$59,348
AUG	157,313	68,746	26,025	62,542
SEP	157,582	68,337	26,614	62,631
OCT	151,063	66,327	25,807	58,929
NOV	154,272	65,385	26,525	62,362
DEC	156,642	64,924	27,721	63,997
1984				
JAN	163,534	69,047	27,816	66,671
FEB	171,331	73,496	28,791	69,044
MAR	175,184	74,182	28,169	72,833
APR	176,937	74,988	27,692	74,257
MAY	185,108	75,810	30,558	78,710
JUN	181,326	75,448	29,539	76,339
JUL	179,724	74,087	30,932	74,705
AUG	180,966	72,024	32,905	76,037
SEP	181,208	70,295	33,186	77,727
OCTp	184,348	69,202	36,072	79,074

HOUSE SALES
(Units in thousands)

Year and Month	EXISTING HOUSES[1]	NEW HOUSES		
		Sold	Available For Sale	Months Supply at Current Rate
1983				
JUL	260	51	288	5.8
AUG	280	50	296	6.3
SEP	240	48	302	6.4
OCT	224	51	302	5.8
NOV	202	45	309	5.9
DEC	180	48	303	4.7
1984				
JAN	178	52	301	5.3
FEB	202	58	304	5.2
MAR	263	63	317	5.9
APR	269	61	325	6.0
MAY	288	59	331	6.6
JUN	294	58	340	6.5
JUL	287	52	340	6.7
AUG	273	49	347	7.3
SEP	216	54	347	6.5
OCTp	235	56	352	6.2
10months				
1984	2,505	562		
1983	2,339	530		
1982	1,630	341		
1981	2,077	380		

RESIDENTIAL STRUCTURES, BY REGION
(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West
1983																
JUN	18	21	88	45	178	200	942	444	18	25	89	42	175	216	935	417
JUL	16	17	78	37	178	194	969	411	18	23	82	39	166	230	979	418
AUG	18	21	79	38	178	198	896	399	22	25	92	38	186	237	1,015	435
SEP	18	21	74	37	168	181	797	394	15	23	84	34	138	221	938	382
OCT	15	20	74	33	161	195	889	405	16	23	87	33	160	197	947	368
NOV	12	16	68	29	152	191	897	409	14	18	75	30	156	214	939	421
DEC	11	9	58	30	174	182	812	434	9	9	63	25	148	214	955	377
1984																
JAN	7	8	63	33	172	239	872	516	7	9	61	32	195	319	927	539
FEB	10	11	68	35	234	267	884	517	9	11	77	33	311	352	1,127	472
MAR	14	16	75	42	184	207	808	528	11	15	77	35	170	229	832	431
APR	17	21	77	42	186	223	879	470	17	21	89	46	212	245	1,023	535
MAY	22	22	76	45	218	206	854	467	19	27	88	47	171	241	910	472
JUN	18	22	78	48	184	223	874	487	23	32	87	42	234	293	930	420
JUL	17	21	64	38	178	229	749	409	20	23	78	40	184	242	914	414
AUG	19	20	64	39	184	190	726	406	21	24	67	35	183	223	739	409
SEP	18	19	57	34	185	178	684	393	19	24	69	36	188	241	823	427
OCTp	19	20	59	36	179	177	656	396	20	26	68	36	191	214	730	380
10 months																
1984	162	179	684	393					166	214	760	382				
1983	140	163	737	331					145	190	798	326				
1982	88	106	438	179					95	126	482	167				
1981	96	120	430	227					102	149	494	216				

CONSTRUCTION STATUS
(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1983						
JUN	951	597	354	123	93	30
JUL	988	615	373	120	91	29
AUG	1,010	629	381	155	106	49
SEP	1,025	632	393	133	99	34
OCT	1,025	620	405	153	110	43
NOV	1,035	616	419	125	94	31
DEC	1,003	582	421	138	102	36
1984						
JAN	995	578	417	112	76	36
FEB	1,008	586	422	109	77	32
MAR	1,022	600	422	119	82	37
APR	1,064	632	432	127	86	41
MAY	1,098	660	438	143	95	48
JUN	1,118	672	446	156	104	52
JUL	1,132	677	455	146	102	44
AUG	1,124	669	455	151	108	43
SEP	1,125	663	462	146	105	41
OCTp	1,121	665	456	156	103	53
10 months						
1984				1,127	819	308
1983				816	576	240
1982				1,068	809	279

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[3]	CONSTRUCTION LOANS[4] ALL TYPES	FNMA		GNMA Current Securities Yield[5]	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey				Mandatory Delivery Yields			Aaa Utility[7] New Issue	U.S. Gov't.		Prime Commercial Paper		
	FHA New[2]	Conventional		Conventional				ARM (5 yr. Treas.)	Conv.			10-yr.	26-wk.	90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr. Gov't.
		New	Existing	New	Existing											
1983																
JUL	14.23%	14.00%	14.01%	12.50%	12.63%	14.50%		12.978%	13.638%	12.80%	12.32%	11.38%	9.26%	9.25%	191	142
AUG	13.78	13.90	13.92	12.38	12.72	14.38	12.99%	13.195	13.688	13.22	12.25	11.85	9.51	9.54	153	137
SEP	13.55	13.60	13.62	12.54	12.85	14.24		12.863	13.213	12.78	12.53	11.65	9.15	9.24	102	113
OCT	13.23	13.52	13.53	12.25	12.65	14.11		12.575	12.963	12.58	12.43	11.54	8.83	8.99	80	104
NOV	13.23	13.48	13.49	12.34	12.58	14.15	12.94	12.787	13.012	12.62	12.64	11.69	8.93	9.10	59	93
DEC	13.25	13.42	13.42	12.42	12.39	13.95		12.870	13.050	12.65	12.62	11.83	9.17	9.53	63	82
1984																
JAN	13.08	13.28	13.27	12.29	12.16	13.74		12.788	12.800	12.46	12.99	11.67	9.02	9.20	9	79
FEB	13.20	13.31	13.32	12.23	12.19	13.98	13.34	12.863	12.938	12.48	13.05	11.84	9.18	9.32	15	64
MAR	13.68	13.57	13.58	12.02	12.17	14.29		13.325	13.375	12.88	13.63	12.32	9.66	9.83	5	56
APR	13.80	13.77	13.79	12.04	12.07	14.58		13.625	13.638	13.16	13.96	12.63	9.84	10.18	(16)	53
MAY	15.01	14.38	14.40	12.18	12.10	15.32	13.76	14.200	14.400	13.85	14.79	13.41	10.31	10.65	22	44
JUN	14.91	14.65	14.67	12.10	12.26	15.70		14.810	14.770	14.22	15.00	13.56	10.51	10.98	(9)	66
JUL	14.58	14.53	14.54	12.50	12.53	15.53		14.810	14.450	14.01	14.93	13.36	10.53	11.19	(35)	65
AUG	14.21	14.24	14.25	12.43	12.75	15.24	14.56	14.050	13.910	13.52	14.12	12.72	10.61	11.18	9	80
SEP	13.99	13.98	14.00	12.53	12.91	15.07		13.913	13.738	13.30	13.86	12.52	10.47	11.04	13	78
OCT	13.43	13.59	13.61	12.77	13.00	14.42		13.588	13.363	13.08	13.52	12.16	9.87	10.12	(9)	92

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.
1983																				
MAR	$21,468	$5,910	$ 7,577	$ 6,965	$1,016	$15,824	$5,050	$ 5,877	$4,839	$ 54	$1,113	$ 70	$ 677	$285	$ 82	$4,531	$790	$1,023	$1,841	$ 902
APR	20,459	6,080	7,942	5,681	756	14,661	4,790	6,292	3,523	56	1,884	890	656	288	50	3,910	400	990	1,870	650
MAY	22,111	5,590	8,348	7,354	819	15,670	4,740	6,903	3,970	57	1,397	300	549	490	58	5,044	550	896	2,894	704
JUN	29,936	7,120	10,936	10,354	1,526	20,993	5,950	8,683	6,268	92	2,621	910	916	645	150	6,322	260	1,337	3,441	1,284
JUL	24,310	5,810	10,275	7,230	995	18,650	5,450	8,297	4,839	64	1,191	30	759	331	71	4,469	330	1,219	2,060	860
AUG	28,942	5,730	11,291	10,042	1,879	20,755	5,000	9,197	6,501	57	1,725	220	740	523	242	6,462	510	1,354	3,018	1,580
SEP	24,331	4,470	10,331	8,115	1,415	16,815	3,660	8,127	4,979	49	1,569	220	774	439	136	5,947	590	1,430	2,697	1,230
OCT	21,235	4,300	8,586	7,121	1,228	14,927	3,630	6,823	4,427	47	1,501	170	759	410	162	4,807	500	1,004	2,284	1,019
NOV	20,938	5,340	8,202	6,039	1,357	14,606	4,690	6,317	3,549	50	1,801	100	783	699	219	4,531	550	1,102	1,791	1,088
DEC	26,024	4,970	10,553	6,793	3,138	15,858	4,860	7,441	3,455	102	2,254	110	996	849	299	7,912	570	2,116	2,489	2,737
1984																				
JAN	20,001	4,870	7,818	6,558	755	13,544	4,190	5,839	3,467	48	1,836	320	938	531	47	4,621	360	1,041	2,560	660
FEB	19,099	4,310	7,721	6,101	967	12,328	3,350	5,724	3,212	42	1,796	570	739	339	148	4,975	390	1,258	2,550	777
MAR	22,857	4,690	10,158	6,914	1,095	14,949	3,770	7,414	3,680	85	2,070	370	1,052	555	93	5,838	550	1,692	2,679	917
APR	24,913	5,870	11,261	6,271	1,511	17,350	4,940	8,507	3,831	72	1,960	410	1,100	264	186	5,603	520	1,654	2,176	1,253
MAY	27,303	5,230	13,393	7,439	1,241	19,457	4,480	10,454	4,419	104	1,929	140	1,255	439	95	5,837	610	1,684	2,581	1,042
JUN	29,599	5,490	14,485	7,629	1,995	20,565	4,680	11,054	4,779	52	1,946	20	1,343	441	142	7,088	790	2,088	2,409	1,801
JUL	24,970	3,760	12,979	7,061	1,170	17,929	3,330	10,213	4,314	72	1,575	0	963	536	76	5,466	430	1,803	2,211	1,022
AUG	25,307	3,570	12,532	7,479	1,726	16,944	3,070	9,546	4,264	64	1,558	0	1,221	313	24	6,805	500	1,765	2,902	1,638
SEPp	n.a.	2,980	n.a.	n.a.	n.a.	n.a.	2,330	n.a.	n.a.	n.a.	n.a.	70	n.a.	n.a.	n.a.	n.a.	580	n.a.	n.a.	n.a.

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.
1983										
MAR	$ 72,413	$18,500	$28,864	$15,217	$ 9,850	$22,322	$7,660	$10,291	$3,073	$1,298
APR	76,041	19,550	31,850	14,311	10,330	22,049	7,460	9,730	3,265	1,594
MAY	78,413	17,740	33,906	16,242	10,531	23,141	7,470	10,622	3,744	1,305
JUN	81,936	19,560	35,319	15,910	11,147	26,002	7,330	12,555	4,011	2,106
JUL	78,741	17,090	36,852	12,651	12,148	26,571	6,840	14,092	3,475	2,164
AUG	79,490	14,990	38,590	13,770	12,140	24,126	6,160	12,668	3,653	1,645
SEP	77,774	13,750	38,562	13,495	11,967	20,364	4,620	10,895	3,454	1,395
OCT	99,570	25,840	38,417	13,721	11,592	19,614	6,130	9,484	2,940	1,060
NOV	85,851	15,990	39,969	17,943	11,949	22,804	7,610	10,182	3,447	1,565
DEC	90,532	22,650	40,410	17,075	10,397	20,760	6,310	10,016	3,119	1,315
1984										
JAN	80,916	15,170	40,781	14,253	10,712	18,183	4,660	9,173	3,010	1,340
FEB	86,522	15,890	42,792	16,441	11,399	19,446	3,980	10,477	3,376	1,613
MAR	88,200	13,410	45,801	16,257	12,732	25,239	5,290	12,954	4,432	2,563
APR	100,399	16,870	51,965	17,702	13,862	26,033	4,700	14,433	4,555	2,345
MAY	103,392	15,950	54,478	18,579	14,385	27,888	4,950	15,997	5,096	1,845
JUN	99,830	12,280	54,698	19,122	13,730	24,649	3,810	14,559	4,736	1,544
JUL	98,039	11,480	54,102	19,227	13,230	22,723	4,060	13,424	4,108	1,131
AUG	92,436	7,970	52,800	18,655	13,011	19,641	2,920	12,316	3,530	875
SEP	n.a.	8,150	n.a	n.a.	n.a.	n.a.	2,910	n.a.	n.a.	n.a
OCT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

MORTGAGE INSURANCE

(Units in Thousands, Dollars in Millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
		FHA/		Total		FHA (203)		VA		Private	
	Total	VA	Private	Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1983											
MAR	176	113	63	87	$5,003	31	$1,508	20	$1,243	36	$2,252
APR	180	117	63	96	5,483	39	1,867	19	1,190	38	2,426
MAY	165	91	74	101	5,959	24	1,152	30	1,911	47	2,896
JUN	233	145	85	139	8,015	60	2,938	24	1,541	55	3,536
JUL	182	102	80	115	6,863	38	1,854	20	1,224	57	3,785
AUG	205	106	99	139	8,665	31	1,641	35	2,193	73	4,831
SEP	152	66	86	161	9,702	56	2,922	33	2,092	72	4,688
OCT	141	58	83	125	7,752	26	1,362	30	1,934	69	4,456
NOV	131	51	80	131	7,980	34	1,772	25	1,598	72	4,610
DEC	136	46	90	118	7,594	20	1,046	22	1,448	76	5,092
1984											
JAN	121	45	76	109	7,017	14	753	24	1,544	71	4,720
FEB	123	44	79	101	6,467	20	1,093	22	1,449	59	3,925
MAR	159	49	110	124	7,715	35	1,807	19	1,202	70	4,706
APR	167	48	119	110	7,103	16	882	17	1,114	77	5,107
MAY	174	45	129	126	8,051	17	924	17	1,081	92	5,965
JUN	159	35	124	138	9,064	20	1,076	16	1,060	102	6,928
JUL	148	32	116	135	8,872	16	834	18	1,131	101	6,907
AUG	136	30	106	129	8,435	17	904	16	998	96	6,533
SEP	116	28	88	100	6,543	14	733	12	775	74	5,035
OCT	136	38	98	106	6,866	12	614	14	861	80	5,391

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage Backed Securities						Pass-Through Securities	
	Comm.	Purc.	Outstanding	Issued	Comm. to Sell	Comm. to Buy	Mtg. Purc.	Sold	Applications	Issued
1983										
MAR	$1,184	$1,433	$18,157	$1,684	$1,410	$1,438	$2,849	$2,469	$9,487	$5,292
APR	1,023	1,004	19,138	1,152	2,149	3,079	1,807	1,525	6,423	4,359
MAY	1,534	1,579	20,064	1,160	2,881	2,334	2,439	1,408	6,687	4,654
JUN	2,506	1,333	20,933	1,097	2,319	2,358	1,494	1,244	6,444	5,246
JUL	1,198	1,358	22,313	1,651	4,621	4,671	1,523	1,491	5,468	4,363
AUG	1,282	1,213	23,078	1,052	5,592	6,367	1,621	1,585	7,976	5,943
SEP	2,739	1,203	23,819	1,018	3,183	3,283	2,263	1,555	6,749	4,200
OCT	1,882	1,244	24,311	750	2,382	2,598	2,886	2,758	3,891	3,808
NOV	997	1,348	24,475	381	1,596	2,093	1,287	1,139	4,201	3,857
DEC	1,471	2,204	25,121	841	1,261	1,704	1,685	1,121	4,046	2,543
1984										
JAN	1,772	1,285	25,182	251	1,293	1,470	1,419	978	2,500	2,718
FEB	1,930	1,507	26,125	1,126	1,127	1,385	1,389	1,338	4,422	3,030
MAR	1,626	2,030	28,354	2,405	1,704	1,873	1,290	968	3,083	2,488
APR	1,561	1,775	28,661	502	1,577	1,701	983	723	2,261	1,981
MAY	1,233	1,379	28,962	552	1,826	1,966	987	832	3,596	2,779
JUN	1,995	1,209	29,256	580	3,038	2,712	2,204	1,845	3,142	2,268
JUL	1,976	1,226	30,485	1,533	3,835	3,929	1,288	1,579	3,252	2,325
AUG	1,227	820	32,054	1,862	3,003	3,130	1,821	1,579	2,385	2,373
SEP	1,142	1,145	32,888	1,092	3,350	3,440	1,262	1,139	2,885	1,921
OCT	1,638	1,087	33,784	1,111	2,539	2,663	2,864	2,668	2,360	2,473

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED			
	Construction				Land Loans				
	Total	1-4 Units	5+ Units	Non-res.		Total	1-4 Units	5+ Units	Non-res.
1983									
MAR	$170	$ 80	$20	$ 70	$ 50	$540	$180	$190	$170
APR	130	50	10	70	60	290	150	610	80
MAY	320	160	40	120	160	470	130	80	260
JUN	430	170	60	200	120	500	130	90	280
JUL	120	60	10	50	40	180	80	30	70
AUG	110	70	10	30	80	200	120	20	60
SEP	160	70	20	60	50	440	100	60	280
OCT	130	60	20	50	90	350	90	140	120
NOV	140	70	10	60	90	390	150	120	120
DEC	570	180	50	340	250	560	130	190	240
1984									
JAN	180	70	20	90	140	460	130	100	230
FEB	150	70	10	70	90	280	80	90	110
MAR	190	80	30	80	220	350	120	80	150
APR	200	90	30	80	100	620	140	360	120
MAY	180	80	10	10	160	420	190	130	100
JUN	380	120	10	250	360	760	120	180	460
JUL	280	70	10	200	180	790	130	210	450
AUG	100	60	0	40	90	410	110	130	170
SEP	100p	50p	10p	40p	120p	430p	100p	150p	190p
OCT	n.a.	n.a	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a.—Not available; p—Preliminary

[1]From the National Association of Realtors' "Existing Home Sales" series.

[2]Secondary market gross yields.

[3]Federal Home Loan Mortgage Corp. Existing construction only.

[4]Federal Reserve's weighted average interest rate for Commercial Banks.

[5]Securities for 30 day delivery.

[6]Mutual Savings Banks and Commercial Banks.

[7]As of January 1984 this rate is for A-rated recently offered utility bonds.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Telerate Financial Information Network, Veterans Administration.

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED[1]

Year and Month	SEASONALLY ADJUSTED				NOT SEASONALLY ADJUSTED							
						1-4 Units				5+ Units		
	Total[2]	1-4 Units	5+ Units	Non-Res.[3]	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.[3]
1982													
OCT	$2,670	$2,100	$ 220	$ 250	$ 2,850	$ 2,290	$ 840	$ 550	$ 900	$ 320	$ 90	$ 230	$ 240
NOV	3,800	3,290	250	280	3,240	2,770	1,190	690	890	200	140	60	270
DEC	4,340	4,000	120	240	4,720	4,210	1,620	1,020	1,570	150	0	150	360
1983													
JAN	5,300	4,640	340	240	4,710	3,880	1,720	940	1,220	650	30	620	180
FEB	5,590	5,350	220	360	4,450	3,980	1,640	970	1,370	170	0	170	300
MAR	5,910	5,170	90	620	5,910	5,050	2,180	1,350	1,520	70	40	30	790
APR	6,270	5,030	1,080	380	6,080	4,790	1,890	1,130	1,770	890	0	890	400
MAY	5,500	4,790	290	440	5,590	4,740	2,030	1,150	1,560	300	10	290	550
JUN	6,110	4,970	680	320	7,120	5,950	2,150	1,310	2,490	910	600	310	260
JUL	5,400	4,740	60	370	5,810	5,450	2,110	1,280	2,060	30	10	20	330
AUG	5,110	4,260	380	590	5,730	5,000	1,760	1,170	2,070	220	30	190	510
SEP	4,750	3,710	370	710	4,470	3,660	1,260	830	1,570	220	60	160	590
OCT	4,190	3,410	110	630	4,300	3,630	1,130	750	1,750	170	0	170	500
NOV	6,160	5,480	130	540	5,340	4,690	1,330	840	2,520	100	30	70	550
DEC	5,150	4,590	90	410	5,540	4,860	1,420	850	2,590	110	0	110	570
1984													
JAN	5,520	5,140	170	460	4,870	4,190	1,140	750	2,300	320	10	310	360
FEB	5,210	4,340	660	460	4,310	3,350	1,030	770	1,550	570	30	540	390
MAR	4,680	3,810	520	440	4,690	3,770	810	560	2,400	370	10	360	550
APR	6,140	5,330	490	490	5,870	4,940	1,070	740	3,130	410	0	410	520
MAY	5,060	4,410	130	460	5,240	4,480	960	690	2,830	140	0	140	610
JUN	4,650	3,860	20	1,020	5,490	4,680	1,050	700	2,930	20	0	20	790
JUL	3,530	2,960	0	460	3,760	3,330	800	530	2,000	0	0	0	430
AUG	3,120	2,600	0	510	3,570	3,070	520	380	2,170	0	0	0	500
SEPp	3,300	2,430	120	780	2,980	2,330	540	360	1,430	70	70	0	580
Year to Date[5]													
1984					$40,780	$34,160	$ 7,920	$5,480	$20,740	$1,900	$120	$1,780	$4,730
1983					49,870	42,500	16,740	10,130	15,630	3,460	780	2,680	3,910
1982					18,440	15,170	4,860	2,900	7,410	910	410	500	2,360
1981					26,680	20,730	6,900	5,170	8,660	1,340	760	580	4,620

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS[1]

Year and Month	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH					
	To Borrowers				From Investors				To Borrowers			From Investors		
	Total	1-4 Units	5+ Units	Non-Res.[3]	Total	1-4 Units	5+ Units	Non-Res.[3]	1-4 Units	5+ Units	Non-Res.[3]	1-4 Units	5+ Units	Non-Res.[3]
1982														
OCT	$ 6,740	$ 5,080	$1,010	$ 650	$ 4,090	$ 2,560	$1,020	$ 510	$10,850	$ 950	$ 770	$ 7,830	$ 1,590	$ 950
NOV	7,290	5,740	490	1,060	6,010	3,990	950	1,070	13,260	1,490	910	10,010	2,250	1,160
DEC	6,110	5,230	170	710	5,330	4,170	180	980	14,680	800	840	9,400	1,180	1,040
1983														
JAN	7,010	5,550	880	580	5,140	4,250	80	810	14,370	1,240	910	8,920	1,380	1,140
FEB	6,460	5,850	290	320	6,160	4,690	630	840	15,840	1,960	1,040	8,260	2,260	1,420
MAR	7,660	6,060	1,390	210	9,130	6,560	1,830	740	15,450	2,190	860	9,750	2,480	1,160
APR	7,460	6,080	460	920	8,300	6,880	260	1,160	16,140	2,240	1,170	11,480	2,440	1,430
MAY	7,470	7,030	0	440	6,080	5,310	190	580	16,350	540	850	9,970	1,590	1,110
JUN	7,330	7,210	0	120	7,760	7,030	310	420	18,300	530	730	12,230	1,590	1,010
JUL	6,840	6,170	0	670	7,060	6,280	160	620	15,890	520	680	11,760	680	870
AUG	6,160	5,450	0	710	6,950	5,920	20	1,010	13,640	460	890	10,820	570	1,050
SEP	4,620	4,510	0	110	5,880	4,350	870	660	12,560	410	780	8,610	1,260	790
OCT	6,130	4,900	240	990	6,280	5,810	200	270	12,870	12,030	940	9,910	13,830	940
NOV	7,610	4,870	800	1,940	5,910	4,010	940	960	13,420	1,440	1,130	10,340	2,390	1,030
DEC	6,320	4,060	250	2,010	4,800	3,150	280	1,370	11,600	10,120	930	7,660	11,950	1,060
1984														
JAN	4,660	4,020	10	670	3,690	2,930	170	590	11,420	2,990	760	8,140	4,670	810
FEB	3,980	3,340	0	640	7,230	4,620	1,830	780	11,830	3,200	860	9,560	5,370	810
MAR	5,290	4,080	0	1,210	4,590	3,530	90	970	12,680	0	730	8,950	1,710	730
APR	4,700	4,300	0	400	5,140	4,540	80	520	13,920	1,970	980	11,200	2,160	980
MAY	4,950	4,070	0	880	4,620	3,530	530	560	13,240	1,510	1,200	9,630	3,310	1,120
JUN	3,810	3,250	40	520	5,970	4,550	70	1,350	11,550	170	560	9,420	350	1,770
JUL	4,060	2,940	0	1,120	4,050	3,580	20	450	10,840	70	570	9,870	250	1,570
AUG	2,920	2,630	0	290	4,220	3,380	10	830	7,430	40	500	7,730	210	1,600
SEPp	2,910	2,640	30	240	2,760	2,390	90	280	7,350	300	500	7,000	480	1,390
Year to Date														
1984	$37,280	$31,270	$ 80	$5,970	$42,270	$33,050	$2,890	$6,330						
1983	61,010	53,910	3,020	4,080	62,460	51,270	4,350	6,840						
1982	27,660	20,710	1,660	5,290	31,310	23,660	1,810	5,840						
1981	29,290	24,710	680	3,900	35,420	25,050	1,190	9,180						

Notes: [1]All dollar amounts are in millions.
[2]Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.
[3]Series labeled non-residential are also inclusive of farm data.
[4]Percent coverage equals outstanding commitments recieved from investors divided by the sum of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.
[5]Year-to-date seasonally adjusted series not calculated.

OUTSTANDING END OF MONTH INVENTORY[1] — COVERAGE[4] — SERVICING VOLUME[1]

Year and Month	Total	1-4 Units				5+ Units			Non-Res.[3]	Coverage 1-4 Units	Coverage 5+ Units	Coverage Non-Res.[3]	Servicing Volume 1-4 Units	Servicing Volume 5+ Units	Servicing Volume Non-Res.[3]
		Total	FHA	VA	Conv.	Total	FHA	Conv.							
1982															
OCT	$ 8,390	$4,390	$1,050	$ 880	$2,460	$2,750	$180	$2,570	$1,250	51%	43%	47%	$240,780	$28,380	$41,310
NOV	9,140	5,070	1,440	1,050	2,580	2,890	400	2,490	1,180	55	51	56	240,710	29,620	42,560
DEC	8,690	6,000	1,890	1,290	2,820	1,590	220	1,370	1,100	45	49	54	251,510	32,820	44,080
1983															
JAN	11,220	6,450	2,180	1,440	2,830	3,600	470	3,130	1,170	43	29	55	245,140	42,090	41,960
FEB	12,000	7,030	2,220	1,500	3,310	3,570	470	3,100	1,400	36	41	58	248,980	41,980	42,230
MAR	11,960	7,250	2,410	1,640	3,200	3,490	480	3,010	1,220	43	44	56	248,630	41,300	44,850
APR	12,080	7,170	2,340	1,700	3,130	2,760	10	2,750	1,000	49	49	66	262,050	43,670	43,790
MAY	11,200	6,930	2,510	1,700	2,720	3,470	10	3,460	800	43	40	64	267,170	44,300	41,940
JUN	12,920	8,260	2,780	1,850	3,630	3,480	10	3,470	850	46	40	64	294,020	51,230	45,180
JUL	11,960	7,760	2,490	1,710	3,560	3,410	0	3,410	790	50	17	60	305,890	43,090	42,620
AUG	11,480	7,190	2,170	1,600	3,420	3,400	0	3,400	890	52	15	59	289,220	41,800	39,150
SEP	10,870	6,530	1,870	1,460	3,200	3,440	10	3,430	900	45	33	47	264,720	44,760	33,870
OCT	11,060	6,590	1,780	1,460	3,350	3,550	210	3,340	920	51	89	51	274,860	44,100	38,970
NOV	11,450	6,990	1,800	1,380	3,810	3,240	0	3,240	1,220	51	51	44	292,100	48,620	40,400
DEC	10,860	6,050	1,570	1,250	3,230	3,500	550	2,950	1,310	43	88	48	259,530	46,690	39,600
1984															
JAN	14,720	6,420	1,390	1,150	3,880	7,400	10	7,390	900	46	45	49	283,720	51,610	36,130
FEB	14,320	5,920	1,380	1,140	3,400	7,450	10	7,440	950	54	50	45	275,010	48,960	41,550
MAR	14,860	6,320	1,350	1,170	3,800	7,510	0	7,510	1,030	47	23	41	281,010	56,610	44,380
APR	16,250	7,500	1,540	1,320	4,640	7,720	0	7,720	1,030	52	22	49	323,690	48,730	42,310
MAY	15,500	6,910	1,390	1,030	4,490	7,390	0	7,390	1,200	48	37	47	332,570	59,010	46,280
JUN	10,270	8,320	1,840	1,450	5,030	780	0	780	1,170	47	37	102	313,650	56,750	38,670
JUL	8,870	6,990	1,480	1,090	4,420	730	0	730	1,150	55	31	91	317,600	63,980	39,840
AUG	7,070	5,520	1,060	740	3,720	640	0	640	910	60	31	113	282,400	42,060	39,110
SEPp	7,310	5,410	990	660	3,760	640	0	640	1,260	55	51	79	296,020	39,300	38,620

CONSTRUCTION AND LAND LOAN ACTIVITY[1]

Year and Month	Disbursements During Month					Construction Loans Closed				End of Month Inventory				
	Total	1-4 Units	5+ Units	Non-Res.[3]	Land Loans	Total	1-4 Units	5+ Units	Non-Res.[3]	Total	1-4 Units	5+ Units	Non-Res.[3]	Land Loans
1982														
OCT	$130	$ 70	$20	$ 40	$ 30	$230	$100	$110	$ 20	$3,460	$ 830	$ 920	$1,710	$ 600
NOV	130	80	10	40	30	430	130	220	80	3,150	840	740	1,570	610
DEC	170	70	30	70	60	490	120	110	260	3,190	880	700	1,610	620
1983														
JAN	100	50	20	30	60	280	120	30	130	2,810	750	650	1,410	580
FEB	150	60	30	60	60	280	110	60	110	3,160	890	620	1,650	630
MAR	170	80	20	70	50	540	180	190	170	3,090	930	580	1,580	610
APR	130	50	10	70	60	290	150	610	80	2,030	610	330	1,090	680
MAY	320	160	40	120	160	470	130	80	260	7,290	2,080	1,140	4,070	1,600
JUN	430	170	60	200	120	500	130	90	280	7,400	2,120	1,080	4,200	1,580
JUL	120	60	10	50	40	180	80	30	70	2,580	810	380	1,390	660
AUG	110	70	10	30	80	200	120	20	60	2,410	760	340	1,310	650
SEP	160	70	20	70	50	440	100	60	280	3,120	950	430	1,740	650
OCT	130	60	20	50	90	350	90	140	120	3,220	990	430	1,800	750
NOV	140	70	10	60	90	390	150	120	120	3,160	1,010	350	1,800	750
DEC	570	180	50	340	250	560	130	190	240	8,490	2,710	940	4,840	1,550
1984														
JAN	180	70	20	90	140	460	130	100	230	3,490	1,050	430	2,010	650
FEB	150	70	10	70	90	280	80	90	110	3,280	880	370	2,030	630
MAR	190	80	30	80	220	350	120	80	150	3,360	990	380	1,990	840
APR	200	90	30	80	100	620	140	360	120	3,220	1,040	460	1,720	860
MAY	180	80	10	90	160	420	190	130	100	3,220	1,060	380	1,780	930
JUN	380	120	10	250	360	760	120	180	460	4,710	1,610	540	2,560	1,250
JUL	280	70	10	200	180	790	130	210	450	2,760	900	240	1,620	1,120
AUG	100	60	0	40	90	410	110	130	170	2,200	790	190	1,220	830
SEPp	100	50	10	40	120	430	100	150	190	2,150	790	180	1,180	800

COMMITMENTS TO BORROWERS: LAND AND CONSTRUCTION LOANS[1] — NOTES PAYABLE[1]

Year and Month	Issued During Month				End of Month Balances				End of Month Balances			
	Total	1-4 Units	5+ Units	Non-Res.[3]	Total	1-4 Units	5+ Units	Non-Res.[3]	Total	Comm. Paper	To Parent	To Others
1982												
OCT	$2,370	$110	$2,000	$ 260	$ 7,180	$ 660	$ 3,630	$2,890	$18,330	$1,460	$ 7,870	$ 9,000
NOV	1,370	190	880	300	7,810	860	4,040	2,910	12,720	1,910	5,850	4,960
DEC	1,050	160	500	390	5,800	850	2,220	2,730	14,660	2,740	6,950	4,970
1983												
JAN	1,730	100	1,420	210	7,170	660	3,990	2,520	19,270	3,320	10,270	5,680
FEB	1,020	130	420	470	8,830	810	4,570	3,450	20,070	3,530	8,370	8,170
MAR	2,840	240	2,260	340	9,400	1,010	5,810	2,580	20,640	3,960	9,510	7,170
APR	1,350	140	500	710	8,400	980	4,900	2,520	20,120	3,330	10,200	6,590
MAY	1,070	120	610	290	6,280	650	3,900	1,730	25,640	3,780	10,460	11,400
JUN	1,410	160	550	700	6,780	970	3,710	2,100	36,620	4,490	10,570	21,560
JUL	1,970	120	1,780	70	7,160	910	4,660	1,590	36,150	4,410	14,100	17,640
AUG	900	180	100	620	5,620	940	2,480	2,200	35,370	8,920	10,920	15,530
SEP	1,100	100	690	310	5,210	870	2,190	2,150	41,300	3,110	9,820	28,370
OCT	1,650	130	990	530	22,340	1,080	18,890	2,370	30,150	2,760	8,870	18,520
NOV	1,770	120	900	750	8,520	1,270	3,960	3,290	32,200	3,690	10,520	17,990
DEC	3,460	110	2,310	1,040	19,710	1,030	15,450	3,230	29,590	2,770	7,140	19,680
1984												
JAN	1,080	80	400	600	10,900	800	7,440	2,660	31,180	3,900	9,810	17,470
FEB	1,300	90	530	680	9,500	750	5,650	3,100	23,480	3,710	8,530	11,240
MAR	2,840	150	2,240	450	5,710	610	2,070	3,030	42,850	5,060	9,130	28,660
APR	3,940	120	3,260	560	10,080	960	5,780	3,340	27,280	3,190	15,280	8,810
MAY	3,530	170	2,770	590	11,480	1,030	6,750	3,700	35,190	4,690	21,880	8,620
JUN	1,170	150	60	960	5,140	1,040	1,010	3,090	31,530	4,910	12,610	14,010
JUL	1,730	130	60	1,540	4,090	870	470	2,750	41,960	6,190	12,710	23,060
AUG	770	190	80	500	3,680	850	460	2,370	47,940	5,750	13,220	28,970
SEPp	750	90	80	580	4,140	730	580	2,830	58,690	4,520	13,990	40,180